


AN ADVENTURE IN
CONSTRUCTIVE FINANCE

CARTER GLASS

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CONSTRUCTIVE FINANCE



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President Woodrow Wilson in whose administration and under whose direction the Federal Reserve Act became law.

AN ADVENTURE IN CONSTRUCTIVE FINANCE

By
CARTER GLASS



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CONTENTS

CHAPTER	PAGE
I. Romance in the Garb of History	I
II. "The Unseen Guardian Angel"	15
III. A Diary of Things Imagined .	37
IV. Origins of Financial Freedom .	58
V. Wilson Appears in the Picture .	73
VI. A Threatening Flank Movement	93
VII. The Bankers Excluded . . .	112
VIII. A Memorable Currency Caucus .	133
IX. Sharp Fight in the House . .	149
X. The Struggle Before the Country	162
XI. A Diverting Party Break . .	183
XII. Various Extraordinary Occurrences	197
XIII. The Bank Bill in Conference . .	212
XIV. The Miracle Accomplished . .	225
XV. A Myth Destroyed	237
XVI. Old Guard's Last Stand . . .	255

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CHAPTER	PAGE
XVII. A "Conspiracy" That Didn't Occur	273
XVIII. A Summary of Achievements .	290
Appendices —	
A. Speech of Hon. Carter Glass, De- cember 22, 1913	317
B. Text of the Federal Reserve Act .	337
Index	419

INTRODUCTION

I alone am responsible for the narrative here presented, which has been written out of my own knowledge of the circumstances recited and my observation of the events. This one thing I do know and assert, in whatever degree the statement may seem to lack proper reserve, that there is no man living who, from beginning or in the progress or at the ending of federal reserve legislation, was more closely or constantly than I privy to and identified with the consideration and enactment of the law under which the federal reserve banking system was set up. There were not many important things said on the subject, and fewer written, that have not a place in the vast abundance of memoranda of all kinds which I assembled in that period, embracing several thousand letters, monologues, drafted bills, private minutes of House committees, conferences and party caucuses, with data of other descriptions, public and confidential.

Ever since the enactment of the federal reserve law it has been my intention to write, some day,

a story of the many inside events word of which never reached beyond a closely restricted circle and had no such thing as current newspaper attention. There were also incidents of the protracted and, sometimes, bitter struggle which, while given a passing notice, were never adequately explained or comprehended in their startling significance. Realizing how hard it is to adorn a narrative about a dry, complex problem with imagery sufficient to engage and retain popular interest, I was not over-eager to enter upon a task for the pursuit of which, in a literary sense, I was conscious of an acute deficiency. Best done, the accomplishment would require a rich vocabulary, with a dexterity of expression which would give colour and animation to the scenes and occurrences depicted. And it was this thought that conspired with an equally valid obstacle, in the nature of a ceaseless occupation with public business, to postpone for thirteen years this attempt to relate briefly, in simple fashion, the real history of the Federal Reserve Act.

Very likely my desire to tell the dramatic story would have abated, and even faded away, as so often happens with cherished intentions, had not there recently issued from the presses a work by Doctor Charles Seymour, a professor of history at Yale, in which the paternity of the Fed-

eral Reserve Act and its particular management are placidly ascribed to Colonel E. M. House, whose "Intimate Papers" are presented as the source of this astounding pretension. Because the rank and vocation of the editor of that work are calculated to get for this utterly unfounded claim a measurable credence among those unacquainted with the facts, my purpose to present the real truth of the matter has been sharply revived and here is put into execution, to the end that this narrative may overtake and destroy the fiction which has been launched by Professor Seymour in the guise of history.

Whatever defects may attach to what appears in these pages, I think it must be conceded that there has been no imitation of the artifice constantly employed by the editor of the House Papers of substituting inference for fact and making deduction answer for proof. Neither has one particle of use been made of delusive implications. Conversely, what is meant is said outright. Not only have the facts been exactly stated; but, in every case, they have been fortified by literal corroboration, which can not be brought in question. Of the negligible instances of conjecture which may seem to involve personal motives it can confidently be said that the related circumstances afford full justification. At no point has there been at-

tempt to twist the truth awry to confirm a preconceived conclusion.

Among the half-dozen critical friends to whom, as a precaution, I chose to submit the manuscript of this narrative, was one of a pacific nature, with long and varied experience in giving advice. He frankly suggested that the first three chapters of the book might be omitted since, in his judgment, the remaining chapters, which tell a constructive story, "constitute a devastating refutation of the things with which the controversial chapters deal." Of this I venture no doubt; but, yielding obedience to a sense of indignation subordinate only to a desire to tell the truth, I am resolved to let the entire chronicle stand as indicative of both my knowledge of the facts and my feeling at the attempt to pervert them.

CARTER GLASS.

Montview Farms,
Lynchburg, Virginia,
December 23, 1926.

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CHAPTER I

ROMANCE IN THE GARB OF HISTORY

*Credit for Federal Reserve System Ascribed to Colonel House
—Professor Seymour's Witnesses Flatly Contradict Him—
Did the President Countenance a Farce?*

OFTEN, in discussing the notable accomplishments of the federal reserve banking system, I have remarked that a person acquainted with the details could, if endued with a fertile facility of expression, write a history of federal reserve legislation which would read like a romance. Little did I ever dream that any person would venture upon the task of writing a romance on the subject and calling it history. Least of all did it ever occur to me to imagine that this dubious pursuit would appeal to the taste of a professor of history in the service of a great university.

If exactly this is not what has been done by Professor Seymour in his presentation of the

Intimate Papers of Colonel House, I shall have to confess a total inability to discriminate fact and fiction, albeit I have acquired, among those who best know me, the reputation of being a severely practical person.

It is not especially important to have it precisely determined who was the author of what is known as the Federal Reserve Act. To whom may fairly be ascribed the greatest measure of credit for setting up this notable banking system is of little consequence in comparison with the universally conceded fact that the system, by whomsoever conceived, has proved the most feasible and effective scheme of national reserve banking ever devised. If there was a trace of exaggeration in the estimate of that seasoned English economist who declared the federal reserve system "worth to the commerce of America more than three Panama Canals," nevertheless, it must be conceded that, in the crucial test of a world war, it was found to be more indispensable to civilization than three times three Panama Canals. This merely means that I agree with the considered judgment of those eminent bankers of this and other lands who have said that the World War could not have been financed but for the Federal Reserve Act. And if not financed, of course, it could not, except at infinitely greater sacrifice, have been won by the

United States and associated nations. Thus, in a final analysis, the real value of this one achievement of Wilson's administration might be fairly appraised by simply leaving to the human contemplation what further slaughter and destruction would have ensued or what would be our situation to-day had we lost the war with the Central European Powers!

While, as I have said, it is not vital to the interest of current history that we should know precisely about the paternity of the Federal Reserve Act, at least it would seem obligatory upon those acquainted with the facts not to sit silent or remain acquiescent when serious attempt is made by persons of repute to establish as the truth an utter perversion of the circumstances connected with this remarkable legislation. Culpability, in such event, would be accentuated if it should appear that such literary legerdemain applied to federal reserve legislation is, if uncontradicted, to be received as imparting verity to other asseverations which may or may not be quite as mythical, but which kindredly affect the reputation of a great man now dead.

It was this latter consideration that instantly engaged my thought on reading the chapter of the *Intimate Papers of Colonel House* in which Professor Seymour, by capricious arrangement

and preconcerted deduction, would have it appear that Woodrow Wilson possessed no knowledge of banking and currency matters nor had any understanding of the philosophy of the problem; that he was compelled to rely on the profound discernment of Colonel House, portrayed by Professor Seymour as the real author of the Federal Reserve Act and the concealed manager of the legislation before Congress!

Of all repugnant things, to me the most objectionable is to feel obliged to project one's self into personal controversy which may necessitate a recital in some detail of the disputant's part in a transaction affecting the public welfare. However, so amazingly contrary was Professor Seymour's "historical narrative" to everything that I know to be true of federal reserve legislation, both as to its inception and its direction at Washington and elsewhere, that I find myself unable to resist the impulse to strip it of all disguise and reveal the disingenuous nature of it. An exceptionally pleasant personal contact with Colonel House and consequent estimate of his character would make me hesitate to believe that he could be willing to assume one particle of responsibility for the manipulation practised by his editor in the use of certain scanty data or for the meanings attached thereto. At the same time, it puzzles one's understanding to arrive

at a rational explanation of Colonel House's silence in the face of this altogether remarkable performance.

Fortunately for the trust, Professor Seymour summons witnesses who are readily available for cross-examination—indeed, for actual confutation of the alleged facts as far as their knowledge extends. For example, at the end of a long prelude in which Professor Seymour to his own satisfaction establishes in Colonel House the authorship of the Federal Reserve Act and the managerial force behind the legislation, he says:

“Few persons suspected the share taken by Colonel House in the formation and passing of the Federal Reserve Act, and he said nothing that might enlighten the public. Towards the end of December, 1913, after the Senate had approved the bill, House was discussing it with two outstanding journalists, Lawrence of the *Associated Press* and Price of the *Washington Star*. ‘I wish you would let me tell about your activities in making the bill,’ said the latter. But the Colonel was obdurate in his insistence upon silence. ‘Will you stay over to see it signed?’ asked Lawrence. But now that the main job was accomplished, House admitted he lacked sufficient interest in any mere ceremony to keep him in Washington.”

Recalling distinctly that Mr. Lawrence had been assigned to cover federal reserve legislation before the House and Mr. Price all important events at the White House for the period indicated, it was to me incredible that either of these gentlemen could have surmised that Colonel House had any hand in the formation or management of federal reserve legislation or was entitled, by reason of any such supposition, to figure at a ceremonial in celebration of the event. I therefore addressed a note to Mr. Lawrence under date of April 3, 1926, in which I said:

UNITED STATES SENATE
Washington, D. C.

April 3/'26.

DEAR MR. LAWRENCE:

. . . In the *Intimate Papers of Colonel House*, recently from the press, I notice a statement by Professor Seymour to the effect that Mr. David Lawrence, of the Associated Press, and Mr. Price, of the *Washington Star*, had besought Colonel House, when the Federal Reserve Act was about to be approved by the President, to permit them to tell what they knew of the former's great contributions to the solution of the federal reserve problem. Colonel House, it is alleged, obdurately refused to do this; but, contextually in the book, crafty manipulation of

random extracts from Colonel House's diary conveys an implication that Colonel House was largely the author of the Federal Reserve Act and "the unseen guardian angel" of the entire legislative proceeding.

As chairman of a subcommittee, and subsequently as chairman of the Banking and Currency Committee of the House in 1912-13, I was directly charged with the duty of initiating and managing to its conclusion legislation for reform of the banking and currency system of the country. If there was a single day from the spring of 1912 to December 22, 1913, that I was not, along with my colleagues, aggressively attentive to the assignment, I do not recall what day it was; hence I have imagined that I had some familiarity with the events of that period. If there is a single sentence in the text of the statute which was written or suggested by Colonel House, or if there is a solitary provision of the measure the substance of which had its origin or primary advocacy in that quarter, I confess utter ignorance of the fact.

Since it is my purpose soon to write a chronicle of federal reserve legislation with its many dramatic episodes, will you not do me the favour immediately to disclose to me your actual knowledge of Colonel House's vital contributions to the measure and to its management in Con-

gress? Perhaps you may be willing to tell me the things that Professor Seymour so singularly omits from his narrative in such degree as to make his story as printed seem little, if at all, short of parody. To relieve the Seymour account of this interpretation, I would like you to point out those parts or provisions of the Federal Reserve Act, in any of its stages, with which Colonel House had anything whatsoever to do or with which any one of the bankers whose names figure cryptically in his diary had anything to do.

Woodrow Wilson is dead and cannot, even if he ever would have bothered to do it, respond to the amazing suggestion that he had to be tutored by Colonel House in the elementals of the banking and currency problem. The maladroit suggestion, if it may not be called an actual assertion, by Professor Seymour, is so directly in contravention of the facts as I know them that I confidently assert there is not one particle of truth to it. And in a little while I shall present evidence from the record to justify my characterization of this performance unless, in the meantime, you will be good enough to supply me with the contrary information which Professor Seymour, after Mr. Wilson's death, says you possess.

Sincerely yours,

CARTER GLASS.

Responsive to this inquiry, Mr. Lawrence said he had no recollection of the circumstance cited and no knowledge of federal reserve legislation apart from that obtained day by day from the chairman of the House committee having the problem in charge.

Later, Mr. Lawrence sent a formal acknowledgment of the foregoing note in which, misapprehending that I was trying to identify myself explicitly with the measure, he was at pains to recall this writer's part in the preparation and passage of the currency bill. This was gracious enough but was not what was wanted. Mr. Lawrence was again asked to fortify, if he could, Professor Seymour's astounding postulate with respect to Colonel House's initiative and guardianship of the bank bill. On April 28th, Mr. Lawrence wrote:

Washington, D. C.,
April 28/26.

DEAR MR. GLASS:

. . . I am sorry I do not have any first-hand information on this subject. In fact, I have only a vague recollection that we correspondents in Princeton, in the pre-inauguration days, were told either by Governor Wilson or someone who spoke for him that Colonel House was to present to you some ideas that he had

gathered with reference to proposals for currency reform, which were then being discussed. Whether these were ever presented, I do not know. I remember your own visit to the cottage in Princeton in December, 1912, and that I as Associated Press correspondent wrote a dispatch to the effect that you had discussed currency proposals with Mr. Wilson. Beyond this, I have no information on the subject.

Sincerely yours,
DAVID LAWRENCE.

As was confidently anticipated, this one of Professor Seymour's witnesses could impart no corroborative information beyond "a vague recollection" of something that was alleged to be in contemplation, but which never happened. Before I could dispatch a note to Mr. William W. Price, in 1913 connected with the *Washington Star*, the newspaper writer who, according to Professor Seymour, was eager to immortalize Colonel House, that gentleman wrote me as follows:

Washington, D. C.,
April 25, 1926.

MY DEAR SENATOR GLASS:

I understand there is a statement in the *Intimate Papers of Colonel House* to the effect that I

asked his permission in December, 1913, to make public his part in the formulation and passage of the Federal Reserve Act. As a matter of simple justice . . . I think it my duty to write you and say that I have no recollection of any such conversation with Colonel House or of ever having in my mind that Colonel House did have an influential hand in this particular legislation.

To the contrary, it is my distinct recollection that President Wilson did give you the bulk of the credit for framing and getting through the opposing currents of Congress this most useful and valuable act—so much so, in fact, that it was confidential information with me for a long time that your achievement would eventually be rewarded by the President, if he ever had opportunity, by appointment as Secretary of the Treasury.

Yours truly,
W. W. PRICE.

Since neither party to a litigious proceeding may discredit his own witnesses, it must be inferred that this phase of the Seymour narrative is pretty definitely disposed of by the testimony of the two ranking newspaper men the substance of whose letters is above quoted. Even so, the distinguished professor of history still

has the supporting force of his own or somebody else's invention about the "obduracy" of Colonel House in refusing to be honoured by those gathered at the White House on the evening of December 23, 1913, to witness presidential approval of the first revolutionary banking and currency measure passed by Congress within a period of half a century.

Was it exactly "obduracy" that Dr. Seymour's great banking philosopher manifested in disdaining credit for his masterpieces, or was it that innate modesty which is the "ornament of a meek and quiet spirit"? Either one or the other, how prodigiously amused Colonel House must have been at the ensuing séance! The play of Hamlet with the Dane in flight! Worse than that: the President of the United States consciously party to a counterfeit performance in decorating men who had only a paltry share in an economic and legislative achievement the genius and strategy of which were furnished by the reticent and retreating figure on the Congressional Limited! Since Woodrow Wilson, for constitutional reasons only, did not consider it expedient to have Colonel House sign the President's name to the engrossed currency bill, surely Professor Seymour must think that Owen and McAdoo and I should at least add to Colonel House's collection of mementoes the gold pens

with which the presidential signature was attached. Also, he should be given the signed bill engrossed on parchment, now in my library, and likewise the first ten-dollar federal reserve note printed, hanging against the wall of a national bank of my home town in Virginia. What a travesty that White House proceeding was! And what a farce to which the President wilfully lent himself, according to Dr. Seymour!

On the other side, and contrary to this Seymour coinage, if it be reasonable to assume and easy to prove that President Wilson, with complete knowledge of every circumstance, was on December 23, 1913, entirely sincere in his ascriptions of praise, modestly withholding only any reference whatsoever to his own inestimable contributions to an epochal political and legislative achievement, it follows inevitably that this narrative of the Yale professor, as to its meaningless facts no less than to its fanciful deductions, is utterly devoid of value. Standing by itself as an appraisal of the character and accomplishments of Colonel House, it would leave him in a sorry plight, indeed, after the story should be divested of its fictional aspects; and this even with all the Diary entries attested as an accurate recital of things that happened, rather than, as in many instances, a droll misinterpretation of sayings and events.

But for Colonel House's cumulative admissions of his own extraordinary achievements in nominating and electing Mr. Wilson to the Presidency; in selecting the Cabinet and administering the affairs of government; in trying vainly to avert war and vainly trying to terminate it; in preparing for the conflict and arousing the fighting spirit of the nation; in enlightening, persuading, and frightening European potentates and directing the statecraft of belligerent and neutral countries alike—but for these really fine things to commemorate the almost supernatural greatness of Colonel House, the tawdry embellishments of Dr. Seymour about his “guardian angel's” imaginary part in federal reserve legislation would assume the guise of what Edmund Burke describes as “giving splendour to obscurity and distinction to merit undiscerned.”

CHAPTER II

“THE UNSEEN GUARDIAN ANGEL”

*A Unique Way of Establishing an Hypothesis—Is History
Merely What a Writer Would Have It?—Some Rank
Absurdities Exposed*

AUTHORSHIP of the Letters of Junius will remain a mystery to the end of time. Not even the skill of Macaulay in assembling and dissecting data and contrasting syntheses could leave more than a presumption in favour of Sir Philip Francis. And likewise, the writer of the Sonnets and the Plays attributed to Shakespeare is not yet sufficiently identified to the satisfaction of many men of letters. Three hundred years after the Stratford player's death, there are those who believe that pilgrimages to the Avon should be directed to Saint Albans. On the contrary, not even the affirmative testimony of the famous Promus, or the Northumberland House scratch-book of Sir Francis Bacon, with its multitude of “parallelisms” of thought and phrases identical with those found in the Sonnets and Plays, have made a convincing impression on Shakespeareans. In the Book of Genesis it is recorded

that God said, "Let there be Light; and there was Light." Yet skeptics, who also are great scientists, pronounce this story of the creation oriental nonsense!

But the professor of history to whom was confided the task of editing and publishing the *Intimate Papers of Colonel House* has discovered a new and quick way of establishing an hypothesis and having it accepted for the truth. The invention should enhance his reputation as a teacher of history. To prove the economic vision of Colonel House and to confirm his own astute conjecture as to the paternity of the Federal Reserve Act, Professor Seymour's penchant for research was rewarded by finding in *Philip Dru* a reference to banking and currency so pregnant with light and learning as to settle definitely for all time the origin of federal reserve legislation. *Philip Dru*, it may be explained, personifies the title of that work of fiction ascribed to Colonel House from which, it is gravely alleged, Woodrow Wilson drew inspiration for the few things he did as President of the United States without the corporeal aid of Colonel House.

Let's see how impressively and with what consummate ingenuity Professor Seymour adduces evidence of Colonel House's prescience and his ripened capacity for dealing with problems so complex as to have baffled statesmen for

a quarter of a century: Enumerating the mistakes of the founders of the Republic, Colonel House, masquerading as Philip Dru, started a crusade on paper for reformation in government. Although President Wilson did not live long enough to be used as an agency for precipitating the suggested revolution in the parliamentary system of the nation, he was utilized in time to give the country an improved banking and currency system conceived by Colonel House and by him formulated and managed through both Houses of Congress. As already noted, Mr. Wilson was permitted to sign the Act himself, because the Constitution required this much. But that the architect and builder was Colonel House, there is here presented the significant reference to the currency problem found in *Philip Dru*, written by Colonel House in the latter part of 1912, and exhibited by Dr. Seymour in 1926 as conclusive of the point in question:

“Philip Dru also provided for the ‘formation of a new banking law, affording a flexible currency bottomed largely upon commercial assets, the real wealth of the nation, instead of upon debt, as formerly. . . . Its final construction would completely destroy the credit trust, the greatest, the most far-reaching, and under evil direction the most pernicious trust of all.’”

It is not with malice, but with genuine amusement, that I seem to remember having read and heard something of this nature away back yonder, prior to the Indianapolis conference of currency experts, twenty years before Colonel House, in Texas, had begun to set up magistrates and create Senators. For eight years in the Banking and Currency Committee of the House of Representatives, from time to time earnestly striving for reserve banking legislation, this exact phrase, quoted by Professor Seymour from Colonel House's *Philip Dru* as a revelation of rare sagacity, had been bandied about a thousand times before we ever tackled the measure known now as the Federal Reserve Act. "An elastic currency," based on commercial assets, rather than "a rigid currency," based on the bonded indebtedness of the nation, was alleged to be the goal of the Indianapolis bill and, years later, of the Walker bank bill, the Fowler bill, the Williams bill, the Vreeland bill, the Aldrich bill, and the composite Vreeland-Aldrich bill. The National Monetary Commission, and the Citizens' League organized to finance and otherwise promote the central bank plan projected by it, crammed this idiom to the point of satiety.

The phrase became so trite as once to overtax the patience of a profane colleague and provoke the expletive: "Oh, hell! Everybody wants

that; but nobody seems to contrive a way to get it!” But, as casually furnished to Colonel House by a distinguished economist and put on the pen-point of Philip Dru, the phrase, to our Yale professor, assumed the aspect of a divine command. In brief, paraphrasing Genesis, House in a novel exclaimed: “Let there be a Flexible Currency; and there was a Flexible Currency!”—this for Dr. Seymour was crowning evidence of Colonel House’s marvellous perspicacity and his gift for legislative detail. And the professor is simple enough to imagine that there is nobody left, after Mr. Wilson’s death, who might be expected authoritatively to reveal the childishness of such fudge!

The Creator of the heavens and the earth did not deign to argue the question or to supplement the fact by proof. Professor Seymour in sifting the “intimate papers” of Colonel House to justify his singular premonition of his friend’s genius for economics and his craftsmanship in statutory construction, piles circumstance on circumstance in the process of demonstrating his case from the confessions of the Colonel’s own Diary! Strict fairness to Colonel House compels the statement that in none of these notations does he precisely assert for himself the paternity of the Federal Reserve Act. It is only by conjoining the context of the Seymour story and the entries

of the House Diary that we get from this literary alchemy a blend which has altogether the flavour of asserted authorship. For this false compound Professor Seymour seems primarily responsible, albeit Colonel House cannot escape a share of culpability as long as he gives to this book the sanction of his silence. It is a part of the purpose of this chronicle to examine the House Diary and clearly to set in view the utterly futile nature of the entries upon which the Yale book-maker has relied to misappropriate credit for the greatest legislative achievement of Woodrow Wilson's administration.

Preliminary to presentation of the Diary items, the editor of Colonel House's *Intimate Papers* makes many assertions on no visible authority beyond his own inaccurate surmises. There is not the scratch of a pen from any corroborative source; nor could there be, for Professor Seymour's narrative on "Currency Reform" is a profanation of history. He avers that, in the autumn of 1912 and spring of 1913, "even in the midst of forming a Cabinet, House worked constantly on the currency problem," and then continues:

"The task which Colonel House set himself was primarily to prevent the President-elect from committing himself to any one scheme until

the problem had been thoroughly studied; later he guided the measure so that it was left in the control of experts and preserved from the heresies of political incompetents. The Colonel was the unseen guardian angel of the bill, constantly assisting the Secretary of the Treasury and the chairmen of the Senate and House Committees in their active and successful labour of translating it into law."

Reserving the right, of course, to alter, amplify, or discard entirely the currency scheme verbally outlined to him by me at Princeton on December 26, 1912, and later submitted in a preliminary draft at the Executive offices in Trenton on January 30th following, Mr. Wilson may be said to have already "committed himself" to every fundamental provision of the Federal Reserve Act before Colonel House could have known what was contemplated or what the bill actually would contain.

When the currency bill was in shape to be "translated into law," Colonel House was three thousand miles away. He set sail for Europe before he could even have guessed the personnel of the committee which was to have charge of it, for the committee had not yet been named. The impertinent assertion that "he guided the measure so that it was left in the hands of

experts and preserved from the heresies of political incompetents" is as offensive a fabrication as was ever penned on paper. Until his boat was about to leave the wharf, he had not seen a draft of the measure, and should not then have been permitted to see it. The only technician in whose hands it had ever been was Dr. Willis, the expert of the subcommittee of which I was chairman. Colonel House, on the eve of his departure, procured from a high official an incomplete copy of the bill. Sailing on the same vessel was a distinguished banker whom he apparently had constituted his tutor in currency matters; and pretty soon there came back from this latter gentleman in Switzerland two rather impatient but precise criticisms of the federal reserve bill, for private circulation among a select group of bankers.

Thus the chief contribution of Colonel House to currency reform up to this moment was to get an adverse critic to bombard the measure. He seems also to have succeeded in teasing the credulity of other bankers by stimulating their belief in his intimate association with the work. As for "preserving the bill from the heresies of political incompetents," it would be interesting to have Professor Seymour tell us exactly how it happened. No legislative measure ever devised was subjected to fiercer partizan attack

than this very currency bill; and the bitterest critics, as the most pestiferous, were two politicians in Congress from Colonel House's own state. It is a pity the magician did not wave his wand in their direction. He might have saved us the trouble of pounding them to pulp and mercifully preserved them from painful humiliation. It was in reference to one of these politicians that Henry Watterson reproved the chairman of the committee for "using dynamite where insect powder would do."

A simple narrative of facts, which may readily be verified, will demonstrate how impossible it was for Colonel House, in the autumn of 1912 and in the spring of 1913, to have performed the great things to which Professor Seymour so swiftly bears witness: As chairman of a subcommittee, the present writer in that period was deeply engrossed in currency matters; but the House Committee on Banking and Currency which dealt with the federal reserve bill was not yet named for the Sixty-third Congress and, hence, was without a chairman from March 4th until June 3, 1913. It was not certain that I would be made chairman¹, as powerful central

¹The plan which was finally determined upon (by the advocates of a central bank) was that of arranging to supersede Mr. Glass in the headship of the Committee—Mr. Glass was the second member in seniority of rank in the Banking and Currency Committee; and, upon the retirement of Chairman Pujo, the headship of the whole Committee would naturally pass to him—the problem was simply that of securing a com-

bankers were feverishly manœuvring to prevent; therefore, the work then being done by me and by the subcommittee expert at my direction was based on a mere contingency. For this reason it was kept fairly well to ourselves. I did not acquaint my intimate friends in Congress with the exact nature of the work; how utterly foolish, then, for Dr. Seymour to assume that I was telling a total stranger like Colonel House all about it!

There was no Senate Committee on Banking and Currency in the autumn of 1912, nor until March 18, 1913, when such a committee was named for the first time in the history of that body. Senator Owen, born in the same town within one block of my birthplace, was its first chairman. It could not have been known to Colonel House or to anybody else that the Senate would set up such a committee, and much less could it have been conjectured that Mr. Owen would be made chairman of it if constituted. Hence, Colonel House in this period had no occasion to "aid" a chairman of a Senate committee that had no existence in the preparation of a currency bill of which Colonel House could have no knowledge. And here it may be related that former Senator Owen, in personal conversation with me, flatly contradicted the

bination that would transfer the succession in some other direction.—
H. Parker Willis in *The Federal Reserve System*.

statement of Dr. Seymour that Colonel House "constantly assisted" him in federal reserve matters. Mr. Owen not only entered a general denial and made sharp characterization of Professor Seymour's "historical" twaddle, but later sent me this note:

Washington, D. C.,
September 15, 1926.

HONOURABLE CARTER GLASS,

United States Senator,
Washington, D. C.

DEAR SENATOR:

In response to your inquiry, I briefly reply that Colonel E. M. House had nothing to do with influencing my activities in connection with the Federal Reserve Act, nor do I recall any item in the bill which he sponsored. My first draft, before you and I consulted with regard to it, had no item in it due to any suggestion from him.

Yours very respectfully,

ROBERT L. OWEN.

In my service as congressional subcommittee chairman, charged with a solution of the currency problem, Colonel House saw me briefly three times: first as a total stranger, to "size me up," I think, for a group of bankers; next to

talk patronage, and lastly to learn something about the currency bill which Professor Seymour says Colonel House constructed! In my service as chairman of the Banking and Currency Committee of the House, named while Colonel House was abroad, I recall no contact, direct or indirect, with him for a time long before the currency bill was introduced in Congress until long after it had been enacted into law and approved by the President. Thus, if in this severely careful recital of the extent to which Colonel House "constantly assisted" the chairmen of the Banking and Currency Committees of the Senate and House Professor Seymour can find warrant for his medley of amazing misrepresentations, nobody should begrudge him the comfort derived.

And how unspeakably ridiculous Dr. Seymour needlessly makes himself and Colonel House, too, when he weaves into his story this bit of transparent rubbish:

"Colonel House was indefatigable in providing for the President the knowledge that he sought. He collected in his study the banking laws of every nation in Europe. He gathered reports and abstracts from college professors of economics and banking. But he laid chief stress upon his frequent conferences with the bankers

themselves, especially those who had had practical experience in drafting previous bills for Republican Administrations."

All this: as if Woodrow Wilson, historian, student of government, President of Princeton, Governor of New Jersey, President-elect of the United States, was not perfectly aware of the fact that there was immediately at hand, in bound annotated volumes, the completest library in the world on banking and currency, freshly assembled by the National Monetary Commission at a cost to the federal contingent fund of \$102,357.37! All this baffling chatter: as if the chairman of the House subcommittee had not fully apprised Mr. Wilson of the hearings arranged, the tomes of data collected, the unending stream of currency bills en route to the committee "morgue"! All this amusing fiction: as if the President had not seen the committee's prepared questionnaire already posted to college professors, textbook writers, bankers, and business men, some of these names suggested by Governor Wilson himself! Before leaving Trenton for the inaugural ceremonies at Washington, Mr. Wilson, as my letter files abundantly attest, was fully advised of the nature and effect of hearings had at the Capitol and the character of persons examined. Embraced in the list

were many eminent bankers, statisticians and political economists of this and other countries. Yet Colonel House, according to the ebullient editor of the *Intimate Papers*, was "indefatigable in providing for the President knowledge" that the President already abundantly possessed and that Colonel House himself had no use for! Was there ever such artlessness?

And what person with a child's knowledge of legislative processes at Washington could repress a smile at Professor Seymour's comic prattle about "the stress laid" by Colonel House on the latter's "frequent conferences with bankers who had had practical experience in drafting previous bills for Republican administrations." This is, so to speak, Dr. Seymour's *chef d'œuvre*! It is a suggestion *sui generis*! Nothing comparable to it adorns the annals of legislative contrivance. Colonel House, the "silent partner" of a Democratic President and, according to Seymour, the "guardian angel" of currency reform under a Democratic administration, conspiring with bankers who had failed utterly under Republican régimes, in expectation that they might succeed under adversary auspices!

The absurdity of this recital by Colonel House's editor is abated not one whit by the fact that there were no such bankers. In the half century dating from the enactment of the

national bank act, not a single comprehensive attempt was made by Congress even to consider a reserve banking measure. There was in this period no persistent effort at a revision of the national bank act with a view to a readjustment of the currency system. The Walker emergency bill was a feeble approach, but Representative Walker was dead and not available for conference with Colonel House. The Fowler bank zone bill had some sound and feasible provisions, but was not drafted by bankers. Representative Fowler himself appealed so little to a Republican administration that Speaker Cannon summarily deposed him as chairman of the House Committee on Banking and Currency for even daring to disturb the sanctity of the national bank act. Neither the Vreeland bill nor the Aldrich bill, separately or conjoined, pretended to be more than a transient makeshift for emergency purposes, and their authors bitterly opposed the bill which Dr. Seymour imputes to Colonel House; so, who and where were the bankers frequently consulted by Colonel House “who had had practical experience in drafting bills for Republican Administrations”?

The banking and currency bill appended to the report of the National Monetary Commission, which took the name of Senator Nelson W. Aldrich, was submitted to a Democratic

Congress, but was never considered by a committee of either House. This bill provided "a central bank of banks, for banks and by banks." It is said to have been largely the craftsmanship of two highly intellectual persons, one a banker of international repute and in every way an accomplished gentleman. Hence, divested of all mystery, what Professor Seymour should have said in truth was, that Colonel House, knowing next to nothing of the currency problem himself, sought the tutelage of this very banker, became an advocate of the Aldrich scheme, and endeavoured to ensnare President Wilson into a repudiation of his party's platform declaration against a central bank! In a letter to Mr. William J. Bryan, telling of a talk with Mr. Wilson on general topics, Colonel House wrote:

"He [Wilson] is also opposed to the Aldrich plan, but I think you are both wrong there. You will have to convert me the next time I see you. I am inclined to think that Aldrich is trying to give the country a more reasonable and stable system."

In a word, Colonel House favoured the Aldrich scheme, as many others did, without knowing why. That nobody ever weaned him from the

central bank idea¹ which had been taught him by his banker friend is as literally true as that Wilson never did "ultimately accept House's arguments for centralized control of banking," as asserted by Seymour. In a letter to Governor Wilson pretending to describe his first interview with me in Washington, Colonel House made a statement and employed a species of sophistry which were carefully expunged from the letter as presented by his editor of the *Intimate Papers*. The letter preceded my visit to Princeton and was among Mr. Wilson's papers when I arrived. The part of it which was not printed by Dr. Seymour read:

"It was interesting to hear him [Glass] tell of Bryan and the suggestions made by him. I ran over briefly what I considered might be a satisfactory measure. He replied that it seemed all right, but it looked as if I had in mind central control. I told him that no measure could be efficient that did not have a central control. He then said that the platform forbade it. In this, however, I think he is mistaken.

"The platform says: 'We oppose the so-called Aldrich plan for the establishment of a

¹Wherever the term "central bank" occurs in this narrative it means a "central bank of banks," dealing only with member banks of a system, and not a central bank in the European sense, transacting business with the public. No American banker advocated a central bank of the latter description.

central bank.' This does not mean, I take it, that the central banking idea is opposed but that the Aldrich plan for a central bank is opposed."

Why this extract was by Professor Seymour omitted from Colonel House's letter to Mr. Wilson as printed in the *Intimate Papers* is matter for curious conjecture. Its publication would have figured me in something that did not occur as well as in something that was never said—in which circumstances I might have been expected to enter a specific denial. It likewise would have revealed Colonel House as still an advocate of a central bank, even if to get it he must outwit the party platform on which Wilson was elected.

At the time indicated, my information was limited and my education neglected with respect to "the mysterious Colonel House." I did not know there was such a person in existence. That November day in Washington, wherever I went it seemed I had barely missed an eager telephone call from Albert Burleson. When found and told that Colonel House was anxious to see me at the home of Hugh Wallace, I startled my Texas colleague by asking, "Who is Colonel House?" To this extent had I been immersed in the currency problem: that I had not discovered Mr. Wilson's "other self!" On

the way to the Massachusetts Avenue residence, Burleson, much amused at my delinquency, set me wise by whispering how "close and confidential a friend" House was to Wilson. He supplemented this act of kindness by telling me Colonel House wanted to discuss with me "the factional politics of Virginia" with a view to a suitable distribution of federal patronage under the approaching Democratic administration. To me, who regarded the federal patronage system with unspeakable dislike, this appeared to be an extraordinary incident.

I saw and talked with Colonel House alone in a high-up room of Hugh Wallace's home. He no more "ran over briefly" with me what he "considered might be a satisfactory [currency] measure" than did I run over with the predecessor of George III the original draft of the Declaration of Independence.

Neither did I give Colonel House, as stated in the letter to Mr. Wilson, an interesting story of Mr. Bryan's suggestions to me with respect to currency reform; for at that time Mr. Bryan had not parted his lips to me on the subject. Apparently in a very casual way, Colonel House, in that conference, touched on currency matters by avowing his partiality for the Aldrich banking scheme. When I reminded him that we were precluded from considering the Aldrich scheme

by reason of the fact that Mr. Wilson and the next ensuing Congress had been elected on a party platform which, in terms, rejected the Aldrich bill, Colonel House suavely replied: "I fear, Mr. Glass, you attach too much importance to party platforms." Had Colonel House mentioned to me the casuistical distinction with which, in the unpublished paragraph of his letter of November 28, 1912, he sought to impress Mr. Wilson, he would have been cautioned to read the Baltimore platform and note that its declaration was against "the Aldrich plan *or* a central bank." Thus, as we proceed, the reason for the Seymour excision of this paragraph of the House letter to Wilson is gradually disclosed. As it is said a rose by any other name smells just as sweet, so Colonel House, in this suppressed extract from his letter, indubitably implied that a central bank bill with somebody else's name substituted for that of Aldrich would flank the party platform and answer as well as the Aldrich scheme! He would evade the party platform by changing *or* to *for*—not greatly, but technically altering its meaning. Perhaps one should not harshly blame Dr. Seymour for casting out this monkey wrench in his process of establishing for Colonel House paternity of the Federal Reserve Act. It breaks down his machinery.

As for Mr. Bryan's views on impending currency legislation, at the brief interview had with me in Washington Colonel House manifested rather than expressed nervous-concern lest the Nebraskan should be permitted to dominate the situation. I told him in a sentence that Mr. Bryan's known ideas about such matters in no sense accorded with my own; and, while he would not be permitted to control legislation, I should not refuse to hear his suggestions nor fail to seek his coöperation whenever such a course seemed expedient. Mr. Bryan had in House and Senate a formidable following, and it would be tactless to estrange him. This was every word said about Mr. Bryan.

The interview of Colonel House with me at the Wallace home in Washington, misrepresented in the particulars enumerated, as well as in others, terminated with an exceedingly brief reference to Virginia politics in which the two Senators from that state were by Colonel House plied with verbal caustic. They were at the time political adversaries of mine and had vigorously fought Mr. Wilson; yet it seemed a little singular that a total stranger should have so quickly assumed the task of excluding them from the light of the President-elect's countenance and confiding to me the impossible and unwelcome responsibility of dispensing federal patron-

age in my state. This patronage talk was, of course, a mere gesture to conceal the covert purpose of the conference which Colonel House had sought with me; and I left the house perplexed, if not a little inflamed, at what began to dawn on me as a trip of inspection by my interrogator.

It was patent that, among other things, Colonel House had come or been sent to Washington to "look me over," as a horseman will lift the tail and also peer into the mouth of an animal to be raced. With increasing suspicion and a little sense of humiliation, I began to wonder if Governor Wilson, suspecting my capacity for the difficult enterprise ahead, had dispatched a factotum to measure my knowledge of the currency question. Or was it that certain inveterate advocates of a central bank scheme were skirmishing to determine their line of strategy? I was to learn definitely that Mr. Wilson experienced no lack of confidence in me. I have yet to learn that Colonel House was not an emissary of certain central bankers.

CHAPTER III

A DIARY OF THINGS IMAGINED

*A Worthless Witness for the Imposture—Utterly Deceptive
Implications Laid Bare—Colonel House Wrote no Word
in Federal Reserve Act*

AND now, the Diary: that we may see how worthless a witness it is to identify Colonel House as the author of a single sentence or the proponent of a solitary provision of the Federal Reserve Act. One may not be sure from it that Dr. Seymour's hero of currency reform had an idea of what had been done or should be done or might be accomplished in that direction. To begin, there is this entry:

"December 19, 1912: I talked with Paul Warburg over the telephone regarding currency reform. I told him of my Washington trip and what I had done there to get it in working order."

So! What had Colonel House done? What could he have told Paul Warburg he had done? In his letter of November 28th preceding, purporting to give Governor Wilson an account of his visit to Washington, the statement is made

that, in general conversation, he met certain enumerated persons, not one of whom had anything whatsoever to do with the conception, the construction, or enactment of the Federal Reserve Act beyond the quite inevitable fact that, bound by congressional caucus action, several of them voted for the bill. On Colonel House's list was the Texas politician who literally was laughed out of the Democratic caucus for his clownish attempts to defeat the measure. In the letter to Governor Wilson, it is not recorded that Colonel House mentioned the subject of currency legislation to any person on his list but me; and I have already set down with sufficient clarity the utterly inconsequential nature of his fleeting conversation with me at the home of Hugh Wallace. So what sleight-of-hand thing had this economic wizard done to get currency reform "in working order" overnight, months before a hearing was had, before a sentence of the bill was written and even before Mr. Wilson had indicated to those in charge his attitude on the subject?

More than two months later, on February 26, 1913, to be exact, Colonel House makes this irradiating entry in the Diary:

"I went to the Harding dinner and talked with the guests invited to meet me. It was an in-

teresting occasion. I first talked with Mr. Frick, then with Denman and afterwards with Otto Kahn."

And all this under the page title of "Currency Reform"! It is not clear whether the Harding mentioned is he who wrote me from Birmingham a clever plea for a central bank and afterward became an outstanding governor of the Federal Reserve Board or the Harding who became United States Senator from Ohio and later President of the United States. In either case, it may safely be conjectured that Harding gave House an esculent meal; but what has this gastronomic story to do with the paternity of the Federal Reserve Act? Are we asked to believe that this or any other Harding was tactless enough at that dinner to suggest to Colonel House how to write the currency bill which, three months before, on a flying trip to Washington, the Colonel had "gotten in working order"? As to Mr. Frick, was the dinner before or after his attempted assassination by a disappointed workman, and was this incident the topic of conversation? And Denman! I seem to remember a person of that name who, when I was Secretary of the Treasury, "raised merry hell," and had to be curbed, about certain ocean freight-rate discriminations; I am not sure this

was he. Anyhow, were he and Colonel House trying to fix up shipping board troubles? But, with the highly estimable Mr. Otto Kahn thrown in for good measure, exactly how did this Diary entry enable the Yale historian to detect Colonel House as the author of the Federal Reserve Act? What had his dinner with these reputable gentlemen to do with currency reform? What, in heaven's name, had they, individually or collectively, to do with the legislation?

In conjunction with the last foregoing item, Professor Seymour, to establish his thesis, surely must have relied on the next succeeding two extracts from this convincing Diary:

"March 13, 1913: Vanderlip and I had an interesting discussion regarding currency reform.

March 27, 1913: Mr. J. P. Morgan, Jr., and Mr. Denny of his firm, came promptly at five. McAdoo came about ten minutes afterwards. Morgan had a currency plan already formulated and printed. We discussed it at some length. I suggested that he should have it typewritten and sent to us to-day."

Professor Seymour thoughtfully explains that Mr. Morgan was required to incur the expense and trouble of having his plan typed in order to

fool the President and the chairman of the House Banking and Currency Committee into the belief that this was not "a cut-and-dried plan" which a powerful financial magnate was seeking to "impose" on Congress! It is needless to ask or to imagine what became of Mr. Morgan's plan, if he was at pains to have it typed. The perplexing thing is, what on earth did Colonel House want with it, since he and "Philip Dru" had devised a plan long before, which Colonel House, on the top floor of Hugh Wallace's palatial residence in Washington had, the preceding November, "gotten in working order" for quick passage by Congress? That's the question: why should he have put upon the Morgan stenographer the exasperating task of typing a currency bill for which there was no need? Mr. Morgan and his stenographer should not have been thus trifled with. 'Twas bad treatment. Needless to add, those charged with the preparation of currency legislation never heard of Mr. Morgan's bill.

But let us not lightly pass by the point that Colonel House's Diary here records the impressive fact that he "had an interesting discussion regarding currency reform" with Vanderlip. It would be impious to suggest that Frank Vanderlip hoped to teach Wilson's "silent partner" anything about banking and currency.

The only sane inference one may get from this important entry, aside from Dr. Seymour's lucid assumption that it is contributory proof of House's paternity of the Federal Reserve Act, is that the discussion was a "dog-fall." It being confessed by Colonel House that he conceived the Reserve Act, the fact that Mr. Vanderlip violently opposed it to the bitter end would seem to imply that neither of these gentlemen in this memorable discussion convinced the other. And Vanderlip never having pretended to be the author of the currency act, and there being no other participant in that historic discussion, Dr. Seymour feels safe in his conclusion that in House he had discovered the artificer of the federal reserve system. That is to say, Colonel House dined with two bankers, an industrialist, and a seafaring man in February, and talked with Vanderlip and, finally, with Morgan in March, *a priori* he thereafter formulated and became the "guardian angel" of the Federal Reserve Act! And trumpery like this struts in the garb of history!

And next! Unwatchful of his flanks and forgetting he had met and "outlined" to me his currency plan at Mr. Wallace's home in Washington the previous November and had, in December, reported it "in working order" to Paul Warburg, the Colonel's Diary, as ma-

nœuvred by Dr. Seymour, drops back a peg and on January 8, 1913, records:

“The Governor [Wilson] agreed to put me in touch with Glass, Chairman of the Banking and Currency Committee, and I am to work out a measure which is to be submitted to him.”

This is all literally and consecutively true save in two or three trivial particulars. (1) Colonel House having met me in November as “the close and confidential friend” of Mr. Wilson and, according to his solemnly recorded confession, outlined and arranged for his currency plan, there was no need of an introduction by Governor Wilson in January. (2) It happened that I was not made Chairman of the Banking and Currency Committee until the following June 3d, after the amusing stratagems of the Aldrich central bankers to prevent had ceased to vex the appointing power. (3) If Colonel House was ever commissioned by the President-elect “to work out” a currency measure and submit it to me, he flagrantly disobeyed orders. Neither then nor after I became Chairman of the House Banking and Currency Committee did Colonel House ever submit to me one line of a proposed currency bill. Neither did President Wilson at any time of all my fairly intimate contact

with him ever hint that he desired or expected anything of the kind. He spoke no word, nor wrote any, that could have caused me to suppose that he suspected Colonel House of harbouring an idea on the subject. With these inconsequential variances, this four-line entry in the House Diary, paraded by his chosen historian as an attestation of the Colonel's restless activity in currency reform, is historically accurate. If the Professor, in the classroom, is as precise and impressive as in the pages of the *Intimate Papers*, his expositions and deductions must be a priceless asset of the great university.

Manifestly, also, Governor Wilson was tardy in keeping his promises; for, according to my records, in agreement as to dates with the House Diary, the faithful friend of Mr. Wilson did not get in touch with me for the second time until the following March 24th, nearly three months after Governor Wilson's alleged promise to bring us together and three weeks after Mr. Wilson became President. How we managed to navigate the currency boat for that length of time without the stroke oar of Colonel House, the Diary does not record; neither does Dr. Seymour, at this point, venture a customary inference. At all events, on March 24th, Colonel House invited me for a drive along the quieter streets of Washington in a horse-drawn shay.

And this episode brings us to the clinching item in this justly celebrated Diary:

“March 24, 1913: I had an engagement with Carter Glass at five. We drove, in order not to be interrupted. . . . I urged him not to allow . . . the Senate Committee to change what we had agreed upon in any of the essential features. He promised to be firm. I advised using honey as long as it was effective, but, when it was not, I would bring the President and Secretary of the Treasury to his rescue.

“I spoke to the President about this after dinner and advised that McAdoo and I whip the Glass measure into final shape which he could endorse and take to Owen as his own.”

Ordinarily, one does not relish being laughed at; but I confess a hearty participation in the entertainment which some of my intimate associates in the Senate have derived from this unique recital of the Diary. “Good-morning, Glass, are you still standing firm?” is the jocose greeting handed out to me by these comrades of the toga. It is meant in fun, and in that sense I enjoy it; but it implies an accusation that secretly causes me pain. These friends impute to me an excess of tenacity and a degree of firmness that verge at times on obstinacy. They laugh outright at the idea that Colonel

House had to ask me "to be firm" in dealing with a legislative problem the study of which for nearly ten years had been a part of my business in Congress.

But in the fun of the thing sight should not be lost of the Diary's other foolishly improbable and, indeed, impossible aspects. In the first place, Colonel House and I had not "agreed" to anything essential or nonessential about reserve banking. When or where or how was it possible that we could have agreed on anything? I had not laid eyes on him nor he on me since that fugitive meeting, as total strangers, at the residence of Mr. Wallace four months theretofore. In the interim, I had no communication with him nor he with me, directly or indirectly, on any subject. I simply knew, from our one flitting conversation, that he thought he believed in centralizing bank credits and power, as the Aldrich bill proposed, and I believed in decentralized credits and power, as the Federal Reserve Act provides. Thus we were not in accord, but in total disagreement, when we separated after this one brief talk. Moreover, the Senate committee, instituted for the first time in the history of that body, had been named only six days before. Because he happened to be a former townsman in Virginia and a lifelong acquaintance, I knew that Senator

Owen, of Oklahoma, had been made chairman. I did not know his attitude on currency revision, nor the views of any other member of the committee, nor can I think Colonel House knew. There was no reason, therefore, for me or for Colonel House to suspect Senator Owen or any other member of the Senate Committee of a purpose or desire to change provisions of a currency bill of the existence of which they had no knowledge. At that moment, Colonel House had never seen a sentence of the measure. Not even the President or the Secretary of the Treasury had a draft of it. Imagine, in these circumstances, the absurdity of such an entry in the House Diary as is thus said to have been made!

The real truth is that, on that ride, Colonel House's conversation related almost exclusively to federal patronage in Virginia. When he suggested, for the second time, that the President would want me to distribute the offices, again I told him of my distaste for patronage and the impossibility of disregarding the Virginia Senators in making appointments requiring confirmation.

Aside from what I have written, the only thing certainly true about this Diary notation of March 24th is the fact that we drove together and a casual reference was made to currency

readjustment, growing out of Colonel House asking me "how the bank bill was progressing." In this connection, he was kind enough to assure me he "would bring the President and Secretary of the Treasury" to my assistance should I feel at any future stage the need of their direct personal influence. This was encouraging, and I thanked him at the moment; and later, recalling this proffered aid, I sent him a letter of thanks similar to that posted to all those who had given me an early word of encouragement and also had been at pains to wire their congratulations on the triumphant passage of the bill in the House. But, since I never experienced the least trouble in getting access to President Wilson or to Secretary McAdoo without the intervention of Colonel House, the latter was never invited to act as suggested.

Professor Seymour blandly accepts as cumulative proof of authorship Colonel House's statement that the latter "advised the President that McAdoo and I [House] whip the Glass measure into final shape, which he could endorse and take to Owen as his own." The Diary does not give the President's reply to this modest proposal. If any such thing was said to Mr. Wilson, it is certain that no such thing was done. Nearly a month later, the President asked me to

have prepared for him a brief digest of the bill as then drafted. This was promptly done by the accomplished committee expert. Colonel House obtained it from Mr. Wilson, instantly sent it to Mr. Warburg, and later turned in to Mr. McAdoo an unsigned and unidentified hostile criticism of the digest, calling for radical alterations of the bill, which were not made, and advocating certain things which were not done. The criticism was afterward traced to Mr. Warburg. And this is the way Colonel House "whipped the Glass measure into final shape"—by getting his distinguished tutor in the economics of banking and currency to pound it! Of course, no censure is attached to Mr. Warburg, for whom I have the highest respect and warmest personal regard. He simply was unalterably hostile to certain fundamental provisions of the federal reserve bill and in plain terms persistently said so. This he had said at the committee hearings in January, which made it quite futile to have him repeat it in April as a contribution in writing from Colonel House to the great cause of monetary reform! There is not anything of record, nor is there available evidence of any description, that Colonel House ever made a pencil mark of his own on the federal reserve bill or ever offered,

in script or verbally, a provision contained in the statute. Hence his Diary entries to a contrary effect—if not the marquetry of invention, furnish an inscrutable case of self-deception.

Of all living men, it may be stated in this connection, Dr. H. Parker Willis, expert adviser of the House Banking and Currency Committee, should possess an intimate knowledge of things having reference to the preparation of the currency bill and its management before Congress. As answering an inquiry from me, he gives consent to publication of the appended note:

COLUMBIA UNIVERSITY

in the City of New York
School of Business

Oct. 7, 1926.

DEAR MR. GLASS:

You have asked me whether I have any recollection of the participation of Colonel E. M. House in the preparation of the Federal Reserve Act. According to the facts as known to me and as shown by my carefully preserved records, Colonel House had nothing whatever to do with the preparation of the measure. So far as I know, he never filed with the Committee on Banking and Currency, or with anyone connected with it, either a draft of a bill, a sugges-

tion of a bill, or a recommendation for a provision in any such bill. He had nothing whatever to do with the Act.

Yours very truly,
H. PARKER WILLIS.

SENATOR CARTER GLASS,
United States Senate,
Washington, D. C.

In my files there are, I would judge, more than three thousand letters and monologues relating to proposed federal reserve legislation. Many of these letters represent continuous correspondence about the bank bill in process of formulation and after it was drafted. They are from political economists, bankers, merchants, textbook writers, and others. Among them I readily recall Sprague, of Harvard; Fisher and Hadley, of Yale; Kemmerer and Meeker, of Princeton; Laughlin, of Chicago; Scott, of Wisconsin; Jenks, of New York; Horace White, Sir George Paish, and Sir Edmund Walker, and so on. With bankers, the correspondence was intimate. There are letters from Hepburn, Vanderlip, Speyer, Warburg, Howe, Frame, Reynolds, Forgan, Wade, Wexler, Perrin, Dawes, Hulbert, Nash, and scores of others. Among merchants intensely interested, there are letters from Farwell, Wanamaker, Filene, Simmons,

and many more. There are communications from various group heads representing commerce, industry, agriculture, labour, credit men, etc. There is not to be found a suggestion, an intimation, or even the scratch of a pen from Colonel House. Many of the persons enumerated often came to Washington for personal interviews; and life-wasting days and nights were spent in my rooms at the Raleigh Hotel in discussions with the more important of them. Not infrequently at those discussions were the really constructive members of the Banking and Currency Committee. Never was a word spoken that would indicate the existence of Colonel House, and never a word came to us there or elsewhere, directly or indirectly, from Dr. Seymour's mysterious author of the Federal Reserve Act.

Right here it may be noted that there is a rift in the Diary. Curiously enough, Colonel House omits all reference to the only meeting with me at which he was given a real exposition of the Glass currency bill. Mr. Hugh Wallace, in whose home I first saw Colonel House, invited the two of us to meet the Secretary of the Treasury at dinner early in April. Mr. McAdoo 'phoned to inquire if I would not bring along a draft of the bank bill. To this I consented; and there, after dinner, for the very first

time, Colonel House heard from me an explanation of this currency measure. The Secretary of the Treasury discussed details with animation and evident understanding. Colonel House was as quiet as a mouse. If he comprehended the philosophy or technique of the bill, it did not seem so to me. This was the feature of the occasion. It most impressed, as indeed it amused, me. The conversation terminated with a request by Colonel House to let him "have the bill to study." This I could readily decline to do on the plea that I had no duplicate draft; the only other draft was in the hands of the committee expert. Next day I related the circumstance to Dr. Willis, who briefly recounts the incident in his work on *The Federal Reserve System*.

It was immediately after this that the President requested the digest of the bill which Colonel House quickly obtained and gave to Mr. Warburg for criticism; and nothing ever seemed plainer to me after this incident than that Colonel House, with no technical knowledge of the problem, or constructive capacity in its legislative consideration, was acting as a medium of approach to the White House for a group of bankers which hoped to mould currency legislation. At the head of these the ablest, the intensest, the most agile, the best trained, was Paul

M. Warburg. He had for some years manifested an intelligent interest in currency reform and contributed brilliantly to the literature of the movement. He was a strict consolidationist, a believer in a single central bank of banks, as all his associates were. It is not intended to imply that there was, on the part of these bankers, anything illicit about the game. They were men of high character and earnest convictions. They had convinced themselves that the country could best be served by their proposed banking methods, and they wished to reach and impress the President. Through Colonel House, in the way indicated, they got access. That is all they got. They did not make the currency bill. President Wilson from first to last quietly, but decisively, insisted that these great bankers whose dinner guest Colonel House so often was would not be permitted to write a bank bill for his administration. Again and again he told me this when I would discuss with him the manœuvres and stratagems of which Professor Seymour's "guardian angel" seemed to think we were in blessed ignorance. I shall never forget the very quiet, yet very significant way in which President Wilson one day said: "Glass, I had not supposed those gentlemen would be permitted to have a great deal to do with this business."

This swift review concludes my examination

of Colonel House's meaningless Diary on "Currency Reform" as presented by Professor Seymour in the *Intimate Papers*. It would prove tedious to pursue the absurdities running through the few remaining entries. These trivial notations have reference to the harmless, as fruitless, activities of Colonel House after the federal reserve bill, without the faintest assistance from him, had weathered the storm of a party caucus, passed its ordeal in the House, and was nearing the end in the Senate. They range from an inferential attempt to tame "Jim" Reed to the Colonel's imaginary achievement in having the small group of recalcitrant Democratic Senators "whipped into line" for the currency measure. I cannot speak by authority as to this. I was led by Mr. Wilson to believe that effective caucus action in the Senate was chiefly due to the skill and unmatched persuasiveness of the junior Senator from Virginia, in constant coöperation with Mr. McAdoo and the President. It was this indispensable service that suggested the presence of Mr. Swanson at the signing of the Act by the President, as it was this exhibition of genuine loyalty that changed the President's sharp disfavour into a lasting feeling of affection for Swanson. At least, I was so told by persons about Mr. Wilson, both at the Executive offices and in the White House.

With the few Diary items that tell of Colonel House's remaining dinners and discussions with bankers who still nurtured, if they did not proudly cherish, the hallucination that they, through the President's stealthy friend, might affect federal reserve legislation, it is needless to deal. Neither shall I venture to fathom the fatuity of those who, failing to escape the magic of Colonel House's illusions, in the final exigency even magnified him into a financial "Moses" and craved the distinction, as the Colonel himself says, of officiating as his "Aarons." Their failure to sense the real status of things was beyond all comprehension. Equally inexplicable to this day is the singular aberration of Colonel House in seeming to imagine that he was the creator and preserver of the federal reserve banking system and that those who actually conceived and wrote and translated the measure into law were mannequins on which he fitted his legislative designs! Better had he remained "A Man of Mystery" than to have permitted Dr. Seymour to reveal him as the central figure of such a theatrical sham.

As for Professor Seymour, he is so vividly disclosed in the *Intimate Papers* as to require no elaboration of his part in the drama. At every moment, on every page of his Currency Reform chapter, imagination outraces the truth to its

objective; and credit for things accomplished is grotesquely misapplied. Of Quintus Hortensius it was said he scrupled at nothing in his eagerness to win the cause he pleaded. This Cicero must have known when he entreated written encomiums from his pen: "Letters do not blush; spare not to praise me, Hortensius." Both Colonel House and Dr. Seymour, indoctrinated with this inspiring thought, have profusely applied it to book-making and to Diaries. Unsatiated by self-applause, if Colonel House did not adjure Professor Seymour's unblushing commendation, at least he has willingly accepted and placed on the stalls volumes of unmerited eulogium, at which the contriver no less than the recipient should stand abashed. All which prompts me to turn with relief from this work of destruction to an engaging story of construction.

CHAPTER IV

ORIGINS OF FINANCIAL FREEDOM

*The Deficiencies and Terrors of the Old Banking System—A
Breeder of Panics—Feeble Remedies Attempted—
Deliverance at Last Offered*

AT THE outset of this chronicle, it was said that a true history of federal reserve legislation, if written with verve and flavour, could be made to read like a romance. The reform of the currency was almost a miracle; and the story of it, with its many sidelights, should not prove wearisome if told with strict fidelity to the truth, even though the narrative be devoid, in its text, of imagination and humour. The grim purpose and undeviating pursuit of those charged with the business made it a serious and momentous task. For nearly thirteen years there have appeared vagrant accounts of the inception and accomplishment of this legislation, and various claims have been set up as to authorship. Speaking exactly ten years ago to a public assemblage in Washington from a table at which sat the President of the United States, the writer said all he has ever cared to say on this point:

“As to the Federal Reserve Act itself, there has been occasional speculation as to who most deserves credit for its conception and its enactment into law. Its paternity has curiously been ascribed to men who were savagely hostile to the act; to men who never saw a sentence of the original draft; to men who could not write its title in a month’s trial. I know very well the chairman of the House Committee on Banking and Currency has been given an undue share of the praise. . . . But, gentlemen, the serious fact is that the master mind of the whole performance was Woodrow Wilson’s. It was his infinite prescience and patience; it was his courage and wisdom; it was his patriotism and power—his passion to serve mankind—that gave zest and inspiration to the battle for financial freedom.”

Not since then has it seemed worth while to bother with this aspect of the question until now, when a professor of history at a great university comes forward to assert a claim as utterly spurious as any ever presented. This is the sole provocative and, as I venture to think, a complete justification of putting aside reserve in order that the truth may be known. And now for the facts:

For fifty years prior to the enactment of the Federal Reserve Act, the United States endured the handicap of an unscientific currency system.

Again and again it was pronounced by textbook writers and experienced bankers "the most barbarous system on earth." The defects were so glaring and the failure to remedy them fraught with such ill consequences as to constitute a positive indictment of the statesmanship of the nation. For a part of the time, we rested in the imaginary security of ignorance; for another part, we seemed indifferent to our plight, and for the remainder of the time were afraid to apply the remedy lest we interfere with the processes and profits of a privileged class. For no protracted period were we without warning. At nearly every decennial the hateful malady manifested itself in violent financial disturbances which swept the country from Dan to Beersheba. Catastrophe had overtaken us five times within thirty years right in the midst of great prosperity. Strange to say, prosperity, under the then-prevailing currency system, was actually conducive to disaster!

The Siamese twins of disorder were an inelastic currency and a fictitious reserve system. The bankers and politicians were perfectly willing to tackle the task of readjusting the currency; but the bankers, through sheer acquisitiveness, objected to interference with their reserve arrangement, and the politicians, through fear of the bankers, were averse to stirring up enmities

among men of power. The consequence was that the sum total of the idle bank funds of the nation was congested at the money centres for purely speculative purposes. Nobody seemed to discern the absolute necessity of subduing at exactly the same time the twin evils of inelasticity in the currency and of pyramiding reserves by book balances. Little could be accomplished by correcting one fault and leaving the other to persist.

The national currency was inelastic because based on the bonded indebtedness of the United States. The ability of the banks to meet the currency needs of commerce and industry was largely measured by the volume of bonds available. And the total was constantly being diminished by reductions in the national indebtedness. For half a century we banked on the absurd theory that the country always needed a volume of currency equal to the nation's bonded indebtedness and at no time ever required less, whereas we frequently did not need as much as was outstanding and quite as often required more than it was possible to obtain. So, when more was needed than could be gotten, stringencies resulting in panics would be precipitated, to cure which, for the moment, clearing-house certificates would unlawfully be resorted to as a substitute for bank notes. When

currency was redundant, when the volume was more than required for actual commercial transactions, instead of taking it through the expensive process of retirement, it was sent by interior banks to the great money centres to be loaned on call for stock and commodity gambling.

The Federal Reserve Act revolutionized this wretched system by providing a reserve bank currency based on the sound, liquid commercial assets of the country, responsive at all times and to the fullest extent to every reasonable demand of legitimate business. It is issued when needed and retired when not required. Based on commercial transactions, fortified by a large gold cover, with the assets of a great banking system behind them, as well as the obligations of the government, federal reserve notes are easily the soundest on earth to-day, being at a premium in every foreign money market of the world.

At the same time, the Federal Reserve Act wrecked the old system of reserve deposits, which was a breeder of panics. As already pointed out, in seasons of depression, with moderate demands for credits and currency for local commercial transactions, the country banks would bundle off their surplus funds to the money centres, to be loaned, on call, for speculation. At periods, with stock gambling in full blast, trading in business would revive, demands for

credit and currency would ensue, and, with speculative loans extended beyond all capacity to pay, the call for funds from "the street" would create consternation. Interest charges would quickly jump higher and higher, panic would seize gambler and banker alike, and prevailing prosperity would be superseded by distress everywhere. Banks would cease payments; merchants would suspend activities; the shops of industry would close; cars would become idle; crops would rot in the fields and labour would be deprived of its wage. We rescued the reserve fund from this evil use. It had never been attempted before. The attempt now was a challenge to the dominating financial interests of America, and they accepted the invitation to conflict. It was a memorable fight, in which the right prevailed and sound economics triumphed. To within one hour of the final passage of the bill, the bankers kept up their fusillade against this reserve provision. Telegrams of protest were sent to the conference chamber as the agreed report on the bill was being signed by the conferees! We cured this financial cancer by establishing regional reserve banks and making them, instead of private banks in the money centres, custodians of the reserve funds of the nation; by making them also, instead of correspondent banks, the great re-discount agencies

of the country; by making them minister to commerce and industry rather than to the schemes of speculative adventure. The country banks were made free. Business was unshackled. Aspiration and enterprise were loosed. Never again was there to be a money panic.

While vision and capability, as well as courage, were required to bring about this radical reformation, preceding events had a powerfully compelling influence. The frightful panic of 1907, decidedly the severest financial disturbance the country ever had, sharply arrested the attention of Congress and forced those charged with legislative authority at least to attempt remedial action of some kind. The result was the precarious Vreeland-Aldrich Act, intended to serve emergency purposes until a permanent scheme of currency reform might be contrived. The author of this chronicle, selected by his minority associates of the House Banking and Currency Committee to write the dissenting report, in a brief speech in the House on May 27, 1908, described in a few words the minority view of this entirely specious measure:

"This report, Mr. Speaker, enjoys the unique distinction of having been signed by all the Republican conferees of Senate and House, but not approved by a single one. There is scarcely

a feature of this composite bill which has not been soundly condemned by the Republican leaders of Congress. Those features which appeal to members of the House have been mercilessly criticized in the other chamber, and those which suit the Republican managers of the Senate have been severely denounced here. Thus, upon high Republican authority, the conference report embodies a measure which is fifty per cent. House infamy and fifty per cent. Senate infamy, thereby making the whole thing utterly bad. Once I heard John J. Ingalls describe 'Paradise Lost' as 'that matchless epic which everybody praises and nobody reads.' And so we have here a bill for which every member on that side will vote, but in the provisions of which not one of them believes. What the country needs is not a legislative deformity for emergency, but a wise and careful revision of the entire banking and currency system of the United States, whereby panics may be prevented or their violence diminished."

By Mr. Gage, Secretary of the Treasury under President McKinley, the bill was quite as promptly condemned. Mr. Gage said:

"I have no sympathy with it at all. I do not think it is curative. At best it is a patch or a panacea. If adopted it probably puts us to sleep. It is a narcotic that will woo the com-

munity into false repose, from which we will suffer many a nightmare and awaken at last in trouble and real agony."

As originally enacted, not one dollar of emergency currency was ever issued under the terms of the Vreeland-Aldrich bill, notwithstanding the frequent attempts to have it appear that the measure "saved the situation" at the outbreak of the World War in 1914. The truth is that quite a different statute temporarily averted a threatened financial upheaval then. The framers of the Federal Reserve Act had radically amended the Vreeland-Aldrich Act and prolonged its life until the reserve system could be set up. Even with these material alterations in 1913, the Act had to be hastily and radically changed a second time in 1914, on the frantic plea of alarmed bankers, before it could be made operative in that emergency. And the \$368,000,000 of notes issued under the Act were retired as quickly as possible after the federal reserve banks opened for business. The sustaining facts in detail were given in an address to Congress by the chairman of the House Banking and Currency Committee on September 7, 1916, in which it was pointed out, among other significant things, that two banks in New York City alone which took out \$41,000,000 of the emergency notes in 1914 could not have gotten one

dollar under the terms of the unamended Vreeland-Aldrich Act. And that the bungling tax feature of the Act was a vital cause is clearly attested by the convincing fact that of the \$2,977,066 collected by the Treasury as tax on emergency notes, *only the trivial sum of \$11,559 represented collection at a tax equal to the minimum rate of the original Vreeland-Aldrich bill.*

As in some sense a justification of its failure to put the currency system of the nation on a permanent scientific basis at once, Congress provided for a Monetary Commission to study the problem and report. This Commission was headed by Senator Nelson W. Aldrich and, after four years of investigation and meditation, it presented a report accompanied by a proposed currency bill which became known as the "Aldrich plan." Incidentally, along with other very considerable expenditures, it accumulated a library on banking and currency which, as already stated, cost the Treasury more than \$100,000. The bill that accompanied the report of the Commission provided for a central bank to be owned and managed by the stockholding banks, authorized to do business with banks only. The central bank was given important privileges and accorded certain governmental exemptions. It was likewise invested with unusual powers for a privately owned en-

terprise. The mechanism was quite involved; but it was so arranged that the larger banks of the country must inevitably become predominant and the control of credits continue to be exercised by a few powerful institutions in the large financial centres. Its distinguishing feature was centralization as against mobilization of the credits of the nation, the incentive and power of centralization being its normal state in contradistinction to mobilization.

The report of the Monetary Commission, with its accompanying bill, was referred to the Banking and Currency Committee of the House under a resolution which contemplated a searching investigation of what had become known as the "Money Trust." Contemporaneously it was desired that steps should be taken also to reform the defective currency system of the country. This seemed to necessitate a partition of the task; and Chairman Pujo divided his committee into two sections, one to go after "the Money Devil" and the other to pursue the constructive work of revising the currency system. Chairman Pujo headed the first section and assigned to me the chairmanship of the subcommittee to devise a reserve banking scheme. The Money Trust investigation under the skilful direction of Mr. Samuel Untermyer as special counsel, with his large corps of experts, created for a time a

nation-wide sensation and resulted in some far-reaching modifications of then-existing laws against trusts and illicit control of credits. The leading figures in that investigation were so pleased with what they had accomplished as to become imbued with a desire to supersede the other subcommittee and take in hand the more tedious and difficult work of revising the currency laws; but a quick end was put to this intrigue by the refusal of myself and associates to tolerate interference.

The chairman of the subcommittee to which was thus committed the task of revising the currency system had been for ten years a minority member of the House Banking and Currency Committee. He had no special qualification for the work beyond the information absorbed in these years of discussion and a reasonable amount of common sense acquired as a practical printer and successful newspaper publisher, supplemented by an observant service in Congress. Among his associates were several members of limited banking experience and exceptional intelligence otherwise. Authorized by the subcommittee to make selection of an expert adviser, familiar with banking technique, who should also be a tested draughtsman, the chairman chose Dr. H. Parker Willis, for eleven years a teacher of economics at Washington and Lee

University in Virginia, but at that time Washington representative of the *New York Journal of Commerce*, with Treasury assignments. Dr. Willis had also been expert adviser to the House Ways and Means Committee on several important schedules of the tariff bill. The selection indicated was made by the chairman only after the latter in quite a few intimate talks was convinced that Dr. Willis entertained views akin to his own definite idea of establishing a system of regional banks authorized to issue notes on the basis of commercial transactions, which notes would gradually supersede the inelastic bond-secured currency so universally reprobated by experienced bankers and all enlightened teachers of economics.

Very likely it would not be interesting to describe the almost incredible amount of detail involved in the preliminary work of the subcommittee, such as the assembling of indispensable data, the ascertainment of banking opinion as to the preconceived system which it was determined to set up, if possible, and arranging for the hearings which the committee knew must be had both for their essential value and in order to avert the suspicion of attempting a thing of vital importance behind closed doors. Not all members of the committee evinced a lively or constant interest in this tedious feature of the

work, which largely was left to the chairman and the committee expert. It required time and infinite patience. It exacted research and study by contrast of currency and reserve banking schemes. Most of these had been designed as emergency plans, whereas those chiefly engaged in this work hoped to develop a permanent reserve system, operative in times of tranquillity as well as in periods of financial disturbance. Indeed, it was hoped to avert eruptions and to make currency panics a thing impossible of recurrence.

The stage was being set when events took place which considerably simplified the performance. The National Democratic Convention at Baltimore flatly rejected the Aldrich plan and declared also against the creation of a central bank. The Congress being overwhelmingly Democratic, the subcommittee wasted little time in considering the precluded Aldrich currency scheme. However, there was never a moment when the committee could think it was not at liberty to appropriate any provision of the Aldrich bill which might, to advantage, be woven into a regional bank scheme. The Baltimore Convention had also nominated for the Presidency Woodrow Wilson, a real thinker, whose election as days went by seemed more than probable. These happenings, together

with the rejection of the Aldrich plan by the Roosevelt progressive convention, encouraged the hope that currency legislation might not, after all, prove again impossible. The work of the subcommittee at Washington was greatly stimulated. Meanwhile, there began to be received, in response to the comprehensive questionnaire prepared by Dr. Willis, innumerable letters from bankers and not a few from merchants and industrialists of the more alert type. Among the communications sent in were, of course, scores from hopeless currency cranks who had panaceas for every conceivable financial ill. At this particular time, and very fortunately, we were not bothered by a certain well-manned and richly financed group which had been organized to "educate the country" into accepting the central bank plan prepared by direction of the Monetary Commission. As yet the subcommittee, with a mere country editor for its chairman, was not taken seriously; these gentlemen were reserving their ammunition for big game at the exigent moment.

CHAPTER V

WILSON APPEARS IN THE PICTURE

*His Equipment—Invites Author to Princeton—Scene in a
Snowbound Sick Chamber—Origin of the Federal
Reserve Board—Bank Bill Hearings, etc., etc.*

THE triumph of Governor Wilson for the Presidency at the November election in 1912 presented, with respect to federal reserve legislation, an element of hopefulness and also of caution. As to the latter phase, it suggested the uselessness of proceeding along the line which we very definitely had in mind unless and until we could get the sanction of the President-elect. The inspiring feature of the event was the reflection that we would have an executive and legislature of the same political faith, thus avoiding the suspicion and obstruction that seem inevitable under divided authority. It was evident that nothing could be accomplished in a legislative way at the ensuing short session of Congress; but an immense amount of unavoidable work could be done by the subcommittee if we could know reasonably well the direction to take. Therefore, I prepared and

posted a letter to the President-elect at Princeton telling him of the repeated failures of proposed currency bills in Congress and the utter hopelessness of any legislative achievement without unceasing and stern executive leadership. To this letter came the following reply, a facsimile reproduction of which appears on the page opposite.

Shortly after his return from Bermuda, Governor Wilson sent a note to the subcommittee chairman making an appointment for the day after Christmas at Princeton to discuss the question of federal reserve legislation. It is not difficult to recall the trepidation one felt in contemplating an interview of this nature with a man ripe in scholarship, practised in economics, a seasoned student of government. Knowing Mr. Wilson's thorough preparation in the very fundamentals of such problems, it brings a smile of derision to contrast his equipment for this impending service to the nation with the childish presentation by Professor Seymour of a single threadbare expression from Colonel House on the subject of currency reform as evidence of House's ability to cope with a matter of such moment. And Dr. Seymour actually supplemented this fine stroke by adducing in evidence against Mr. Wilson's capabilities a modest disclaimer by Mr. Wilson of any intention to pose

WOODROW WILSON
22 W. STATE ST., WASHINGTON, D. C.

November 14, 1912

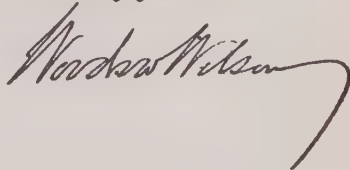
My dear Mr. Glass:

I warmly appreciate your letter of November 7th. Letters descended upon me in such a flood that it has been impossible even to sort them according to their importance, and therefore I have just turned yours up from the pile too late, alas, to arrange for an interview with you before I go away to Bermuda on Saturday.

I shall seek an opportunity as early as possible after my return to commune with you, because the question of the revision of the currency is one of such capital importance that I wish to devote the most serious and immediate attention to it.

It is very delightful to know that I am going to be associated with you in the work at Washington. I shall look forward to it with genuine pleasure.

Cordially and sincerely yours,

A handwritten signature in cursive script, reading "Woodrow Wilson". The signature is written in dark ink and features a long, sweeping horizontal stroke at the end that extends to the right.

Hon. Carter Glass,
Lynchburg, Virginia.

as a past master in the solution of such intricate questions!

Before and during the presidential campaign, Mr. Wilson had manifested an eager interest in the nation's credit situation. From both the economic and political points of view, he discussed the subject with a clarity and precision that attracted wide attention and elicited from the weightier papers and periodicals discriminating comment. In calmer moments, after the riot of politics was over, he discussed the question with deliberate earnestness. Observe the reach, the genuine comprehensiveness, of this extract from *The New Freedom*:

FEDERAL RESERVE SYSTEM

“You will notice from a recent investigation that things like this take place: A certain bank invests in certain securities. It appears from evidence that the handling of these securities was very intimately connected with the maintenance of the price of a particular commodity. Nobody ought, and in normal circumstances nobody would, for a moment think of suspecting the managers of a great bank of making such an investment in order to help those who were conducting a particular business in the United States to maintain the price of their commodity;

but the circumstances are not normal. It is beginning to be believed that in the big business of this country nothing is disconnected from anything else. I do not mean in this particular instance to which I referred, and I do not have in mind to draw any inference at all, for that would be unjust; but take any investment of an industrial character by a great bank. It is known that the directorate of that bank interlaces in personnel with ten, twenty, thirty, forty, fifty, sixty boards of directors of all sorts, of railroads which handle commodities, of great groups of manufacturers which manufacture commodities, and of great merchants who distribute commodities; and the result is that every great bank is under suspicion with regard to the motive of its investment. It is at least considered possible that it is playing the game of somebody who has nothing to do with banking, but with whom some of its directors are connected and joined in interest. The ground of unrest and uneasiness, in short, on the part of the public at large, is the growing knowledge that many large undertakings are interlaced with one another, indistinguishable from one another in personnel.

“Therefore, when a small group of men approach Congress in order to induce the committee concerned to concur in certain legislation, nobody knows the ramifications of the interests which

those men represent; there seems no frank and open action of public opinion in public counsel, but every man is suspected of representing some other man, and it is not known where his connections begin or end.

"I am one of those who have been so fortunately circumstanced that I have had the opportunity to study the way in which these things come about in complete disconnection with them, and I do not suspect that any man has deliberately planned the system. I am not so uninstructed and misinformed as to suppose that there is a deliberate and malevolent combination somewhere to dominate the Government of the United States. I merely say that, by certain processes, now well known, and perhaps natural in themselves, there has come about an extraordinary and very sinister concentration in the control of business in the country.

"However it has come about, it is more important still that the control of credit also has become dangerously centralized. It is the mere truth to say that the financial resources of the country are not at the command of those who do not submit to the direction and domination of small groups of capitalists who wish to keep the economic development of the country under their own eye and guidance. The great monopoly in this country is the monopoly of big credits.

So long as that exists, our old variety and freedom and individual energy of development are out of the question. A great industrial nation is controlled by its system of credit. Our system of credit is privately concentrated. The growth of the nation, therefore, and all our activities, are in the hands of a few men who, even if their action be honest and intended for the public interest, are necessarily concentrated upon the great undertakings in which their own money is involved and who necessarily, by very reason of their own limitations, chill and check and destroy genuine economic freedom. This is the greatest question of all, and to this statesmen must address themselves with an earnest determination to serve the long future and the true liberties of men.

“This money trust, or as it should be more properly called, this credit trust, of which Congress has begun an investigation, is no myth; it is no imaginary thing. It is not an ordinary trust like another. It doesn’t do business every day. It does business only when there is occasion to do business. You can sometimes do something large when it isn’t watching, but when it is watching, you can’t do much. And I have seen men squeezed by it; I have seen men who, as they themselves expressed it, were put out of business by Wall Street because Wall Street

found them inconvenient and didn't want their competition."

Again and again Mr. Wilson had declared that "America is never going to submit to guardianship. America is not going to choose thralldom instead of freedom." And referring especially to the currency, he exclaimed:

"Are we going to settle the currency question so long as the government listens only to the counsel of those who command the banking situation? . . . There is a sense in which a democratic country forces statesmanship upon every man of initiative, every man capable of leading anybody; and this I believe to be the particular period when statesmanship is forced upon bankers and upon all those who have to do with the application and use of the vast accumulated wealth of this country. We should, for example, not only seek the best solution for our currency difficulties, not only the safest and most scientific system of elastic currency to meet the convenience of the country in which the amount of cash needed at different times fluctuates enormously and violently; but we should also seek to give the discussions of such matters such publicity and such general currency and such simplicity as will enable men of every kind and calling to under-

stand what we are talking about and take an intelligent part in the discussion. We cannot shut ourselves in as experts to our own business. We must open our thoughts to the country at large, and serve the general intelligence as well as the general welfare."

And this was the man, just elected President of the United States, with whom the country-editor chairman of a congressional subcommittee was going to discuss a currency measure!

December 26, 1912, was a desperately cold day. The snow at Princeton was two feet deep. Dr. Willis, the committee expert, had accompanied the chairman, prepared to answer or discuss any purely technical question that might be projected. I had made a written divisional memorandum of the bill I desired to outline to Governor Wilson. The latter had a severe cold and was propped up on pillows in bed. He had cancelled every other engagement for the day, and at once it was suggested that he let us come another time when he might be in better trim; but he insisted on proceeding with the business, so intent was he on a speedy and sweeping currency reform. For two hours the situation was reviewed and the chairman's memorandum dissected. Toward the end, Mr. Wilson announced it as his judgment that we were "far on the right

track"; but offered quite a few suggestions, the most notable being one that resulted in the establishment of an altruistic Federal Reserve Board at Washington to supervise the proposed system. We had committed this function to the Comptroller of the Currency, already tsaristic head of the national banking system of the country. Mr. Wilson laughingly said he was for "a plenty of centralization, but not for too much." Therefore, he asked that a separate central board provision be drafted, to be used or not, as might subsequently be determined, "as a capstone" to the system which had been outlined to him.

Calling to mind now that memorable two-hour interview at which this sick, suffering man evinced the keenest understanding of what was being proposed and gave unmistakable evidence of his own grasp of the problem by suggesting alterations and additions which afterward withstood the test of fierce controversy, it is difficult to decide whether one should be more amused than exasperated to find a professor of history, who thinks the Federal Reserve Board at Washington has "five governors" instead of one, proclaiming that Woodrow Wilson had no intelligent conception of the greatest financial achievement of his own administration! Neither in this first interview at Princeton nor at any other did Mr. Wilson exhibit familiarity with

banking technique. Very likely he knew little about it. But there was never a moment when he did not know what he wanted done or know what he would not permit to be done in this currency proceeding. He did not need, nor did he ever have, any "guardian angel" around.

The outstanding features of the currency proposal presented to Mr. Wilson at the Princeton discussion were (1) organization of a certain number of regional reserve banks of specified capital, with a view to decentralizing credits; (2) a compulsory withdrawal of reserve balances as then impounded and their transfer to these regional reserve banks; (3) compulsory stockholding membership of national banks under penalty of charter forfeiture in case of refusal; (4) associate membership of state banks with limited privileges; (5) the rediscounting processes common to such plans; (6) the issuance by the regional banks of federal reserve notes, based on a gold and liquid paper cover; (7) the gradual retirement of national bank bond-secured notes; (8) the joint liability of all the regional banks; (9) constituting the regional banks fiscal agents of the government, with a view to displacing subtreasuries; (10) conversion of United States 2 per cent. bonds into 3 per cent. bonds, with cancellation of circulation privilege; (11) committing to the Comptroller of the Currency at

Washington full supervisory power over the reserve system. There were, of course, many minor details.

As stated, Mr. Wilson did not relish the idea of having a single federal official invested with complete supervision of such a system and suggested the creation of a federal reserve board. He likewise thought there should be special provision for foreign commerce, and made quite a few other suggestions. I wondered if it might not be well to go a step further in decentralizing credits by prohibiting banks from paying interest on deposits of other banks, by which custom great sums were drawn, as they still are, from interior banks and piled up in the money centres for speculative purposes. Mr. Wilson agreed that this would be highly desirable, but intimated a fear that it would encounter such terrific opposition as to endanger any bill containing such a provision. Before we left, the President-elect suggested that the committee hearings which had been scheduled should be directed to the plan outlined, with the immediate purpose of developing its feasibility and disclosing the extent and nature of banking opposition. This was strictly done, as may be seen by a cursory examination of the hearings. Practically every question asked by the chairman of the committee related to some provision of the currency measure then

in process of construction. The suggestion by Mr. Wilson as to this procedure fitted in exactly with the plans I had in mind, since on December 23, 1912, three days before going to Princeton, I had written to the committee expert:

"It seems to me that should we reach an approximate agreement with Mr. Wilson as to the salient features of currency legislation it would be extremely desirable to get men like Hepburn and Forgan and, indeed, as many of those who appear at the hearings as we may be able to persuade, to speak strongly in favour of the points upon which we may agree. To do this it might be well to have talks beforehand with some of these gentlemen."

Since what I am writing is not intended to be a documentary history, but a brief chronicle of events, it would be wearisome to traverse the committee hearings beyond saying that the chairman, at the very outset, stated that the committee felt it was precluded from considering the so-called "Aldrich plan" or the establishment of a central bank. It was explained that no effort would be made to control the angle of any testimony presented, but that frankness suggested there should be a complete understanding on this point. There was vigorous and repeated protest that party platform declarations should not control currency legislation; but it was answered

that party government was an inevitable process. Despite this warning, and notwithstanding that the platform on which Wilson was elected, as well as the platform on which Roosevelt was nominated, condemned the scheme, the bankers would not refrain from advocating the Aldrich plan or some kind of central bank to be owned and operated by bankers for bankers. There were some notable exceptions; and it is fair to say that some of the insistent champions of a central bank, when brought to a consideration of the regional scheme as a secondary proposition, signified a willingness to coöperate with the committee. For example, George M. Reynolds, of Chicago, laconically remarked that he "never refused half a loaf merely because he couldn't get it all." The hearings were extensive and illuminating. They strengthened the determination of those in charge to proceed with the regional banking measure.

On January 9th, a letter came from Governor Wilson asking me to hold myself in readiness for a further discussion of currency legislation; but quite a time ensued before anything further was heard. Meanwhile, the air was filled with rumours of a determined effort either to sidetrack currency legislation or to set aside the rule of seniority and select a chairman of the House Banking and Currency Committee for the Sixty-

third Congress who would be "less hostile to the Aldrich bill than Glass." This particularly alarmed the committee expert, who had worked in such accord with me; and he nervously warned me that a very powerful banker in New York had said to him two days before that "there is such a thing as getting a committee chairman who will accept our plan." Somewhat with a view to determining whether or not this was an issue which should be met, the following letter was dispatched to Governor Wilson:

January 27, 1913.

HON. WOODROW WILSON,
Trenton, N. J.

DEAR GOVERNOR WILSON:

I received a letter from you under date of January 9th stating that you considered it desirable that you should see me for a further talk on the currency question and that you would in a few days suggest a time for another conference. For fear that failure to promptly acknowledge your letter may have produced the impression that I did not think the matter of sufficient importance to pursue immediately, I am writing to say that I shall be glad to confer at any time that may best suit your convenience.

In my view it is very important that we should know your conclusions on currency matters as

soon as they are reached, as it would be futile to proceed upon lines that might be contrary to your convictions. Indeed, I am inclined to think that it is going to be a little difficult to enact legislation even with the full power of the administration behind any bill we may agree on.

I am right much encouraged, however, by the changed attitude of some of the influential bankers who have appeared before our subcommittee. After being courteously but firmly informed that the committee felt precluded from considering the Aldrich scheme or a central bank plan, these gentlemen, as I am privately told, concluded that they could not carry out Mr. X's purpose of "battering the committee into a repudiation of the Democratic platform," and they are now writing me, after conference among themselves, that they are willing to coöperate with the committee in trying to secure the best remedial legislation that it is possible to obtain. They are expressing a good deal of anxiety for immediate action.

With cordial regards
Sincerely yours,
(signed) CARTER GLASS.

Next day the following letter came, summoning me to a further conference on the suggested currency bill:



STATE OF NEW JERSEY
EXECUTIVE DEPARTMENT

January 28, 1913.

My dear Mr. Glass:-

Thank you for your letter of yesterday. I find that I shall have a comparatively free day on Thursday next the thirtieth. If it is not too short a notice for you, I would be very much obliged to you if you could come up and see me at half past two o'clock in my office here on that day.

I am very much pleased and encouraged by your report of the changed attitude of the men who have been appearing before your sub-committee. I have a growing hope that we are going to work this difficult question out to a successful issue.

Cordially yours,

A handwritten signature in cursive script, reading "Woodrow Wilson", with a long, sweeping flourish extending to the right.

Honorable Carter Glass,
Washington, D. C.

This second discussion was at Trenton in the Executive offices on January 30, 1913, when I presented the first tentative draft of the currency bill embodying the suggestions made by Mr. Wilson and containing two vitally important provisions not previously mentioned to him. One of these, for open market transactions by regional banks, was suggested by Dr. Willis, the committee expert. It had the twofold purpose of compelling compliance with the reserve bank rediscount rate and enabling these banks to utilize idle funds in dull seasons in order to earn expenses and acquire a surplus. The provision was approved by Mr. Wilson, but encountered bitter opposition from the larger banks as tending to create competition with them for business. It, nevertheless, remained in the bill. The other new provision, suggested by the committee chairman, proposed an abolition of exchange charges and the establishment of par collections. This likewise was heartily approved by Mr. Wilson, but was frantically opposed by a combination of small banks. They carried their opposition to the extreme point of prolonged court proceedings, the last of which cases was recently determined by the United States Supreme Court in favour of the validity of the law. Last year it saved the commerce of the nation \$125,000,000!

The draft of the currency bill presented to Governor Wilson at Trenton was not complete, but it contained nearly every fundamental provision subsequently enacted into law. Mr. Wilson left the technique and banking nomenclature entirely with the committee chairman and the expert adviser; but there was never the remotest doubt of his complete understanding of every important point or of his unyielding purpose to bring about a readjustment of the country's currency system. Aside from his own knowledge of the general principles involved, my letter files show that he not infrequently advised with Professor Royal Meeker and others at Princeton, and also with a few intimate friends among experienced bankers. Of this he kept me constantly apprised. He seemed to have very great confidence in the judgment of E. D. Hulbert, of Chicago, who ranked along with Hepburn, of New York, as a scholar among bankers. Mr. Hulbert twice came to Washington to see the President and the committee chairman about certain provisions of the bill.

This conference at Trenton seemed to settle two things: it attached the President-elect to the regional bank system explicitly and, tentatively, to the provisions of the measure as far as drafted; and it disclosed a grim determination on Mr. Wilson's part to brook no interference, if he could

prevent it, with the chairmanship succession. On this occasion, different from the sick-bed experience at Princeton two months before, Mr. Wilson showed a real zest in discussing details; and, while a little disposed to joke about his own "ignorance of banking affairs," he exhibited such a clear comprehension of the problem as to make me rather wary of venturing beyond my depth. I left Trenton with the leader's cheering word to "Go ahead!"

CHAPTER VI

A THREATENING FLANK MOVEMENT

Currency Reform Waits on Tariff—Colonel House Gets Draft of Bill for Hostile Critics—An Intrigue to Wreck the Measure—President Wilson Puts an End to It

THE 4th of March soon arrived, and Wilson was inaugurated President of the United States. At the same time the tenure of the Sixty-second Congress expired. With this ended also the existence of the subcommittee to which had been referred currency matters. And although the President immediately issued a proclamation for an extra session of Congress in April, no House Banking and Currency Committee was named until the following June 3d. Only the Committee on Ways and Means was appointed, with a view to concentrating attention and effort on the tariff. For many weeks there was speculation in the newspapers and around the Capitol as to whether the President would tackle the currency question at the extra session. I happened to know he would, and was told by him to perfect the bill we had in hand.

The fact that no committee was in existence was a distinct advantage in that there was no

obligation on me, as merely prospective chairman, to confer with any of the few former members who were reëlected to Congress or with anybody else. The official connection of the committee expert was also terminated; but Dr. Willis generously put himself at my service. Curiously enough, this is the period of comparative inactivity which Professor Seymour hit upon to exhibit the wonderful economic and managerial performances of Colonel House!

Here it may be stated that the currency measure was so closely guarded for the reason that every other currency bill had been battered to pieces by hostile interests before it could get a start. We suspected that our federal reserve bank bill would be subjected to the same kind of attacks should its revolutionary provisions be prematurely disclosed. Already certain economists, one or two employed by special groups, were making desperate efforts to learn what the bill contained and were endeavouring to have the present writer accept parts or all of their productions. The professional business of the committee expert kept him in New York for a large part of his time, and thus he was enabled to feel the pulse of the banking community. It was at this time that Dr. Willis wrote me:

“While I was a good deal encouraged a few

days ago at the fact that the bankers were swinging around into support of something like what we have been working on, I think it is essential to bear in mind that they are doing this in full expectation of getting us to adopt such a 'strong' plan as to come close to the Aldrich plan. This raises the question whether it is expedient to put this plan in the hands of any persons to pass around among themselves until we ascertain the prospects in Congress. I shall by the end of the week have the bill in as good shape as I can get it. I do not wish to go ahead with new features without getting instructions from you, so I am endeavouring simply to improve it strictly on lines that you and I have talked of. Might it not be well when we are ready to show the bill to invite half a dozen of the best men in Washington for a conference in executive session?"

To me it did not seem expedient to act on this suggestion before the House Banking and Currency Committee should be appointed; and the text of the bill was kept strictly secret except from the President and the Secretary of the Treasury. The latter official was exceptionally considerate when the situation was explained; and, as my letter files show, referred all inquiries and suggestions to me. It was not until April that Mr. McAdoo exhibited any impatience whatso-

ever; and, as already cited, the text of the bill was read to him at the home of Mr. Hugh Wallace, where Colonel House was a dinner guest. A little while afterward this latter gentleman obtained a digest of the bill which he handed to Mr. Warburg, who wrote the criticism of it previously referred to in this chronicle. A month later, on the day before sailing for Europe, Colonel House managed to procure, mysteriously from some source, a copy of the bill for dissection by his banker friends; and thereafter the outstanding provisions of the measure were freely discussed and severely condemned in financial circles before it was even known who would constitute the congressional committee to consider it!

In the circumstances cited, the prospective chairman of the House Committee on Banking and Currency could think of no reason why he should not discuss the main features of the bill informally with certain bankers who were intensely interested in a reform of the currency and had manifested a natural eagerness to see the measure. This I cautiously did to my own great advantage. Moreover, a copy of the bill was now for the first time given to Senator Owen, chairman of the newly created Banking and Currency Committee of the Senate, whose coöperation was earnestly invited. On the third of June, 1913, the Banking and Currency Commit-

tee of the House of Representatives for the Sixty-third Congress was elected, with the present writer as chairman. Among my papers is a list of the proposed Democratic membership of the committee sent to me by President Wilson with the appended note in his own hand asking if the names proposed were satisfactory:

BANKING AND CURRENCY

1. Carter Glass of Virginia
2. Charles A. Korbly of Indiana
3. William G. Brown of West Virginia
4. R. J. Bulkley of Ohio
5. Robert L. Doughton of North Carolina
6. Hubert D. Stephens of Mississippi
7. James F. Byrnes of South Carolina
8. George A. Neely of Kansas
9. Thomas G. Patten of New York
10. Claudius U. Stone of Illinois
11. Michael F. Phelan of Massachusetts
12. Joe H. Eagle of Texas
13. Otis T. Wingo of Arkansas
14. H. H. Seldomridge of Colorado

Mr. dear Mr. Glass,

This is the Committee suggested from the Committee of Ways and Means. What do you think of it?

In haste faithfully Yours.

Woodrow Wilson

Messrs. Doughton, Stephens, and Byrnes declined service and were replaced by Messrs. Ragsdale of South Carolina; Weaver of Oklahoma, and Wilson, of Florida. Few members of the previous committee had been reëlected to Congress and most of the names on the list were of inexperienced members. While greatly disappointed over the omission of several names I much wanted to see, there was no apparent reason for any objection to those presented. And, indeed, with one or two exceptions, they turned out to be as steadfast and earnest and agreeable a set of fellows as any committee chairman ever had the privilege of working with. The one or two exceptions were ingrained dissidents or congenital cynics; they caused delay and created ill feeling, but made not one particle of impression on currency legislation.

With the selection of the House committee it became increasingly desirable to be more communicative, and there were frequent and very earnest talks with some of the members, particularly of the old subcommittee, who had been of infinite help with their suggestions in the earlier stages. Obviously, it was going to require caution and tact not to offend the spirit of those new members of the committee who were already nettled at the prospect of being asked to accept a currency measure on faith.

In the very midst of these conversations, something happened that momentarily created consternation. The Secretary of the Treasury, who had seemed to favour the Glass currency bill and who repeatedly had been invited to propose any desirable alterations or additions, appeared to have been taking advice on the subject from some of his New York friends. As a result, he invited me to a conference at a Washington clubhouse, where I was astonished to be told that, unless the currency bill should be greatly revised, the Secretary had reason to believe it would be unacceptable to conservative bankers on one hand and to Mr. Bryan and his radical friends on the other. It was beyond my divination to know how to construct a currency bill that would please two strictly adversary groups; but on getting down to details the alterations proposed by Mr. McAdoo did not seem at all vital, and the committee expert, who was present at the conference, was directed to prepare the changes for critical examination. Meanwhile, I found in my box at the hotel a letter the contents of which perplexed me. It was from George M. Reynolds, the great Chicago banker, with whom I had repeatedly discussed currency matters. In part it read:

"I am very sorry indeed I missed you last evening. I must return to Chicago to-day and

regret very much I have not been able to see you. Seeing so many evidences of those in high places to scatter on the currency question, I feel a most vigorous effort should be made to have discussion of the matter centred upon your bill rather than on some others which I regard as unsound in principle and incorrect in theory; and it was with a view of doing what I can to assist in encouraging the passage of your bill that I desired to see you. I would have *said* some things to you which I do not feel I can consistently *write*. I sincerely hope President Wilson is much more in sympathy with your bill than some others I have seen and heard of."

This letter seemed to warn me that somebody "in high place" was disposed to "scatter on the currency question." I was not kept long guessing. Before the committee expert could prepare the alterations in the Glass bill suggested by the Secretary of the Treasury, Mr. McAdoo 'phoned for me to come to the Treasury on an important matter, and there handed me the outline of a proposed bill to create a bureau bank in the Treasury with all the elements of a central bank. The scheme involved a tremendous issue of treasury notes to supersede the outstanding greenbacks and gold certificates and seemed to contemplate a seizure of the gold in trust behind the certificates. I had not gotten far in my

examination of the proposal before I looked up from the paper and asked the Secretary if he was "serious about it." With characteristic point and punch he exclaimed: "Hell, yes!"

I frankly said the scheme was impossible and could never pass Congress; but Mr. McAdoo insisted it had the endorsement of eminent bankers and urged me to consider substituting it for the Glass bill. Senator Owen, he said, thoroughly approved. This I could readily believe, for I had heard Senator Owen express views akin to those reflected by this proposal. However, I was amazed to be told that practical bankers favoured the proposition and still more astonished to have the Secretary name as among them George M. Reynolds, from whom I had received that warning note. I did not know at the moment that the House committee expert had been asked to examine and criticize the plan; this I learned next day. Of course, he condemned it. Secretary McAdoo gave me permission to take the plan for submission to bankers with whom I had intimate contact. Needless to say, I left the Treasury building astounded. It seemed an end of currency reform for the time—a nullification of fourteen months of hard work and inconceivable nervous strain. I was never more certain of anything in my life than that this proposal, if seriously attempted, would cause

both a political upheaval in the country and a revulsion in financial circles. It did not require many minutes for me to make the wires hot.

To Reynolds, at Chicago, surprise was expressed at his change of front and even greater astonishment at his approval of this novel scheme. To A. Barton Hepburn, of the Bankers' Currency Commission, in New York, was sent an urgent request for a quick review of the new plan, saying: "It is so radically different from anything that seemed to be in contemplation and so apart from what I had conceived to be the proper function of government on this subject, that I find myself wondering if I know anything about the matter at all. It seems to me that, should we embark on a startlingly different proposal from that to which all our inquiries and discussions have been directed, we will simply accomplish nothing." Telegrams and letters went instantly to Hulbert, Forgan, Wade, Perrin, and other active figures in the banking community, as well as to a few outstanding business men who had taken exceptional interest in the currency movement.

Quickly responsive wires came from most of these. Hepburn telegraphed that the proposed scheme had "fatal objections," and wrote that he had so told Mr. McAdoo, then in New York. James A. Forgan, that stern old Scotsman, wired from Chicago:

"Have just read copy of proposed currency law which you sent me. Consider it impracticable, inadvisable, and unworthy of serious consideration."

President Wilson's special friend among bankers, E. D. Hulbert, of Chicago, sent a scathing review of the plan, as did other practical bank men. George Reynolds, who had been cited as an advocate of the scheme, wired that he had "been misunderstood," immediately following with a letter, part of which is appended:

"If the people in the Treasury Department interpreted their interview with me to mean that I approved of their bill, then I must confess that we may expect a reasonable amount of trouble in dislodging them from their present position, for I have no hesitation in saying to you that I told them frankly I regarded the matter as entirely unsound, un-American, contrary to proper policy, and that I could not agree with them in the matter at all.

"Naturally, I handled them with as great consideration and courtesy as possible and did all I could not to antagonize them personally, in the hope that I might wield still further influence in helping to dislodge the idea of a government bank pure and simple from their minds.

"I am unalterably opposed to the plan, and I cannot feel that serious consideration will be given to it by men of affairs, and particularly by students of this subject.

"In the event that this reserve scheme of McAdoo's does not seriously befog the situation through getting Mr. Wilson himself committed to it, I am rather inclined to believe it may in the end prove to be more or less of a blessing in disguise, in helping to concentrate favourable opinion upon your bill.

"Possibly the fear of the adoption of some such scheme as has been proposed, which has as its basis fiat money, to say nothing of the wrong principles in practical application, may cause many who have been more or less rigid in their views of this question to be a little more yielding."

From bankers, business men, and trained economists there came a flood of protests and alarming predictions. The President, apparently not knowing that I had been apprised of the proposed substitute, 'phoned me that he had a paper from Mr. Samuel Untermyer in advocacy of a new currency scheme, which he wanted me to examine. Later in the day, he sent the paper by messenger with the attached note:

This is Mr. Muttonye's paper
to which I referred.

When you have read it,
will you not let Mr. McAdoo
have it? I have only this
copy.

Nedra Wilson

Mr. Glass.

This was the first I knew of the origin of the extraordinary plan, although I had long heard some such queer talk in certain quarters. The President did not seem especially impressed; but, conceivably, had given tacit permission for the experimental attempt at a rival plan which he had been assured would please the radicals of his party and not displease the better balanced

element. It also had been represented to him that the reserve bill which had been worked out upon lines concurred in, where not actually suggested by the President, "was displeasing to bankers and politicians alike." Among those who were thus urging the President to sidetrack the federal reserve bill, which Professor Seymour tells us Colonel House conceived and managed through Congress, was Colonel House himself! He appeared tip-toeing on the scene as an advocate of this central-bank-greenback scheme; and just before setting sail for Europe was pressing the President for a personal interview for Mr. Untermeyer in order that the bureau plan might be presented in all its alluring aspects and the federal reserve bill ditched. When President Wilson refused, Professor Seymour's "guardian angel of the federal reserve bill" was so intent on having substituted for it the strange device of Mr. Untermeyer that he besought Mr. Wilson to relent and listen to the wonderful argument of Mr. Untermeyer. He actually proposed to have Mr. Untermeyer slipped into the White House at night, when "it is quite possible no one will know"! He even took the trouble to suggest Senator Owen and Mr. McAdoo to do the slipping. The only objection Colonel House intimated to the scheme was the conspicuous identification of Mr. Untermeyer with it; and

this he proposed to cure by suggesting a way in which Mr. Untermeyer might, by a quick process of elimination, be taken out of the picture.

Dr. Seymour may know an infinite lot about what he calls "historicity"; but as a picker of "guardian angels" he may be said to be a little deficient. And, if the business of a person engaged in "historicity" is to tell the truth strictly and altogether, Professor Seymour should explain why he omitted from the *Intimate Papers of Colonel House* a letter to Mr. Wilson, bearing date of May 20, 1913, the inclusion of which in his chapter on "Currency Reform" would have badly disfigured the wretched pretense that Colonel House had part in federal reserve legislation. It would have, in direct contrast, revealed him as an intriguer in the effort to wreck the federal reserve bill and to replace it with a bureau central bank, to be owned and operated by the federal government! It may be assumed that the failure of Dr. Seymour to print this immensely interesting letter denotes his differentiation of history from "historicity"!—the one being the truth revealed and the other the truth concealed.

Until the President apprised me of the Untermeyer paper, I had not imagined the scheme had yet gotten to him. On the evening of June 5th, he had me come to the White House for a con-

ference about this new development. Armed only with several telegrams from leading bankers and the letter from Reynolds, just taken from the mail, I went for the discussion. The President had me dissect the Untermeyer scheme. I tried to make it a vivisection. At the end of the review, during which he scarcely spoke, Mr. Wilson quietly said: "I am surprised, Glass, at your vehemence. Mac tells me the scheme has the approval of many practical bankers." I asked who they were. "George Reynolds, for example, one of twelve men controlling the credits of the nation." This I had expected would be the answer, because the name of no other banker had been mentioned as sanctioning the thing. Taking the letter of Reynolds from my pocket, I read to the President several of the very emphatic paragraphs. He made me reread the clause beginning: "Naturally, I handled them with as great consideration and courtesy as possible." He appeared to think this evinced a lack of real courage, if not of frankness, although Mr. Reynolds had explained that he had felt obliged to be tactful. "I fear Mac is deceived," he said, "but fortunately the thing has not gone so far it cannot be stopped." Reaching for his pen, he made a note on a pad and dismissed me.

Other telegrams and letters of protest came in

immediately, until it seemed that the Reynolds prediction was verified sooner than could have been expected. The banking community was badly frightened at this threatening movement to ditch the federal reserve bill by substituting for it a government bureau bank in the Treasury. Some of their wires and letters were sent to the White House and others to the Secretary of the Treasury. The blistering comment on the new scheme by E. D. Hulbert of Chicago was dispatched to the President by special messenger in order to strengthen Mr. Wilson's purpose to put an end to the move. To Mr. Hulbert the committee chairman wrote under date of June 9th:

"I took the liberty of submitting your comment to the President, knowing he has great confidence in your judgment. Permit me to say that you not only state the logic of the matter as to the economics of the proposition, but you present the political aspect in a striking and tactful way. Your comment in this respect accorded so absolutely with what I had said to the President that I took exceptional delight in handing him your brief. I am happy to tell you that Secretary McAdoo to-day assured me that he would not further press this scheme, but would accept my draft of a bill constructed upon

lines you have approved, as a basis of legislation."

The President had given his decision against the scheme, and McAdoo met the situation like a prince. Not for an instant did he exhibit a sign of resentment or even of disappointment. He felt that he had been misled by some of the bankers who had been more intent on being tactful than on being frank. From that moment, he never wavered. Every hour he could spare from more exigent duties he gave to the currency problem. He was particularly resourceful in helping to assuage irritation among the new members, who naturally felt that, if they were to assume responsibility, they should have some part in the preliminaries. It was a delicate task to convince men of spirit that, in a complex technical matter, there must be single initiative and leadership in order to get anywhere. McAdoo is one of the few men in the world who can swear interestingly. During this period he was positively fascinating. His zest in behalf of currency reform, with his personal attachment to the committee chairman, proved a powerful incentive to success. Without his fine spirit and absolute dependability, the task of the committee would have been infinitely harder, if not well-nigh impossible. But, heaven help us,

what a narrow escape that was from wrecking currency reform and precipitating another government bank upheaval! The ghost of Andrew Jackson stalked before my face in the daytime and haunted my couch for nights.

CHAPTER VII

THE BANKERS EXCLUDED

*Not Permitted to Select Members of Federal Reserve Board—
A Dramatic Protest to Mr. Wilson—When a Government
Note Is Not a Government Note*

TARIFF legislation was nearing consummation, and it became increasingly necessary to hurry the currency bill along for introduction as an "administration measure," for only thereby could we hope to succeed where so many others had utterly failed. In this interim Secretary McAdoo and Senator Owen proposed alterations in the structure of the bill that very greatly simplified the original method suggested of electing the boards of directors of the regional banks and the appointment and operation of the Federal Reserve Board. It was at this point that the President had us come to the White House for a conference concerning that feature of the bill that gave the banks minority representation on the Federal Reserve Board. I was very definitely committed to giving the banks some voice. Senator Owen, of the Senate com-

mittee, had sided with Mr. Bryan in opposition. At the White House conference McAdoo agreed at first with me; but later in the evening he proposed a compromise. The President decided against banking representation. This was one of the crucial questions the President had to determine. It was evident it might involve the failure of legislation by embittering the bankers should they be entirely excluded. If they should be included, Bryan and his following might revolt. I had urged the "essential injustice and political inexpediency" of denying the banks minority representation. The President was not bothered about the political phase; but he was willing to discuss the justice of the thing. So convinced was I that the President was wrong in his conclusion that I sent him this note; which is reproduced here to indicate that the President was not easily persuaded nor the chairman of the committee entirely complaisant:

"At the risk of being regarded pertinacious I am going to ask if you will not consider the advisability of modifying somewhat your view of bank representation on the proposed Federal Reserve Board. The matter has given me much concern, and more than ever I am convinced that it will be a grave mistake to alter so radically the feature of the bill indicated. Last night,

when I came back to my hotel, I found Mr. Bulkley waiting, and he sat with me until past one o'clock this morning. Knowing that he was so earnestly for a government note issue and for government control, I imagined he would be delighted with the suggested alteration. I told him of the change without first indicating my own view; and, much to my astonishment and gratification, he instantly and vigorously protested, saying he had regarded the extent to which we had already put the government in control, together with the tremendous power of the Board, as the real weakness of the bill. He also said we could not escape the charge of exposing the banking business of the country to political control. As indicated to you last night, Mr. Bulkley is a strong man of the committee with whom we must reckon; hence his view of this proposed alteration fully confirms my belief that it would prove an almost irretrievable mistake to leave the banks without representation on the central board. You will note that the bill requires the three members selected by the banks to sever all bank connections before qualifying. Might it not be well at least to take Mr. McAdoo's suggestion and have the President select these men from a list proposed by the banks? With high esteem, etc."

The President was adamant; and, if there was ever a lapse, I soon was to revive the conviction that Mr. Wilson knew more about these matters than I did. As anticipated, when the bill was introduced in Congress, bankers raised an uproar about this provision. With scarcely suppressed satisfaction, I headed a delegation of them to the White House to convince the President he was wrong. Forgan and Wade, Sol Wexler and Perrin, Howe and other members of the Currency Commission of the American Bankers Association constituted the party. The first two, peremptory and arbitrary, used to having their own way, did not mince matters. They evidently were not awed by "titled consequence," for they spoke with force and even bitterness. Sol Wexler and Perrin were suave and conciliatory. The President was courteous and contained. These great bankers, arbiters for years of the country's credits, were grouped about the President's desk in the Executive office adjoining the Cabinet room. I sat outside the circle, having already voiced my own dissent from the President's attitude. President Wilson faced the group across the desk; and as these men drove home what seemed to me good reason after good reason for banker representation on the central board, I actually experienced a sense of regret that I had a part in subjecting Mr.

Wilson to such an ordeal. When they had ended their arguments Mr. Wilson, turning more particularly to Forgan and Wade, said quietly: "Will one of you gentlemen tell me in what civilized country of the earth there are important government boards of control on which private interests are represented?" There was painful silence for the longest single moment I ever spent; and before it was broken Mr. Wilson further inquired: "Which of you gentlemen thinks the railroads should select members of the Interstate Commerce Commission?" There could be no convincing reply to either question, so the discussion turned to other points of the currency bill; and, notwithstanding a desperate effort was made in the Senate to give the banks minority representation on the reserve board, the proposition did not prevail.

It was at this conference that the President requested the House chairman, as compensation to the bankers for denial of representation on the central board, to set up a Federal Advisory Council, to be composed exclusively of bankers, authorized to sit at stated times with the Federal Reserve Board in a purely advisory capacity. This was done and the amendment made in committee. At this conference also vigorous protest was made by the bankers against the utterly foolish decision to eliminate the bond-

conversion provision of the bill, designed to retire, in time, national bank notes. I could never exactly comprehend how the President or the Secretary of the Treasury was persuaded to listen to such a thing, much less momentarily to sanction it. The primary purpose of the proposed legislation was to rid the country gradually of bond-secured circulation. Hence, on learning that this proposal had been abandoned at the request of Mr. Bryan with the concurrence of Senator Owen, while agreeing to introduce the bill with this provision omitted, after over-night reflection I frankly told the President and immediately gave out a public statement of my unalterable intention to have the bond-conversion feature restored, if possible, in committee or in the House. The elimination caused wide astonishment. It was so unsparingly condemned that the provision was restored before the bill was introduced. Every platform of the Democratic party for twelve years had proscribed the inelastic bond-secured currency. Every currency expert and every teacher of economics had done likewise, as well as every intelligent banker.

After the meeting with the President at the White House, I agreed with Messrs. Wexler and Reynolds, acting for their committee, to do everything possible to restore the bond-refunding

provision of the bill and to revise the bank-reserve provision so as to permit the central board, in its discretion, after a period of three years, to allow 5 per cent. of credit balances kept with correspondent banks to count as reserve. It was also agreed that an Advisory Council, selected by the banks, would be set up. Restoration of the bond provision was regarded by the chairman as indispensable; the President had already privately requested the inclusion of an Advisory Council provision, so the only important concession involved at this conference with these bankers related to reserve requirements, and I felt absolutely certain the Board would not use its discretion, after a three-year test, as these bankers imagined it would. They agreed explicitly that, if the changes indicated were made, they would get behind the bill "with enthusiasm" and do their best to put the entire Currency Commission of the American Bankers Association in motion for it. In a few days thereafter, I was surprised to receive a letter from Mr. Wexler, approved by Mr. Reynolds, renouncing the agreement and signifying their unwillingness to support the bill as drawn. The President and my committee colleagues had been induced to consent reluctantly to this modification of the reserve section, appearing to think the price for banker support was rather high.

Added by case
at request Pres.
Smith

Federal Advisory Council.

There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal Reserve Districts. Each Federal Reserve Bank by its Board of Directors shall annually select one member of said Council, who shall receive no compensation for his services, but may be reimbursed for actual necessary expenses. The meetings of said Advisory Council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The Council may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the Council shall be filled by the respective Reserve Banks, and members selected to fill vacancies shall serve for the unexpired terms.

The Federal Advisory Council shall have power, ⁽¹⁾ to meet & confer directly with the Federal Reserve Board on general business and ⁽²⁾ to receive oral or written representations concerning actions taken, proposed or ⁽³⁾ contemplated by said Board; ⁽⁴⁾ to call for, ⁽⁵⁾ complete information and, to give advice concerning discount rates, rediscount business, note issues, reserve conditions in the various Districts, the purchase & sale of gold or securities by Reserve Banks, open market operations by said banks or the general affairs of the Reserve Banking system.

First draft of Advisory Council provision referred to on preceding page as submitted to Committee of Bankers.

Naturally, exasperation was great at the Wexler letter, and I lost no time in letting this be known, writing him under date of July 3d:

"I do not imagine you will be surprised to have me express astonishment at the contents of your letter. Each and every one of the modifications suggested by your committee in my room at the Raleigh Hotel was drafted by me and submitted to you; and, as I distinctly understood, was approved. It was upon the assurances of yourself and Mr. Reynolds that, with these alterations, you would get behind the bill, that I prevailed with my colleagues to agree. In view of these facts I was amazed to receive your letter saying you would not support the bill after having agreed to do so. If we are to have your hostility in addition to that of the radical element, we will bring out a bill not half as good as this one, and you gentlemen will be responsible."

Mr. Wexler insisted that I had not understood the suggestions they made or his recent letter and berated the administration for not wanting to "do anything that is economically sound." He said further: "Neither Mr. Reynolds nor I have stated we will oppose the bill, notwithstanding it has not been rewritten according to the suggestions we made. We certainly shall use every effort to have the bill amended along

sound banking lines, as we cannot conceive any reason for the extreme obstinacy of the framers of the bill."

These gentlemen were again reminded that the changes which they had proposed had not only been embodied; but the very form had received their positive sanction. However, they persisted in their own obstinate purpose to have the bill further amended. The result was that the concession which had been made to them on the reserve provision was promptly expunged and they got nothing. They fought for the restoration of this expurgated clause to the very last, as evidenced by a telegram to me from Mr. Reynolds dated December 20th, three days before the bill became law, saying it was "imperative to the success of the new system that the currency bill be so modified as to allow at least one fourth of the reserve of country banks and ordinary reserve city banks to consist permanently of balances due from correspondents in reserve and central reserve cities." I had offered them a concession whereby they might, possibly, have gotten more than one fourth, and they had accepted it with a promise of support. They not only renounced the arrangement, but severely arraigned the proponents of the bill. They ended up their threatened fight by appealing for one fourth and lost all!

On this point Dr. H. Parker Willis, in his work on *The Federal Reserve System*, has this to say, which exactly reflects my state of mind as expressed to the committee expert at the time:

“Mr. Glass was firmly of the belief that the transfer of reserves would prove itself to be not only entirely free of any injurious effect upon the banking community but, on the contrary, highly beneficial, while he was unable to conceive of any Federal Reserve Board which would be so lacking in the knowledge of general principles of banking as to throw aside what was unquestionably likely to prove the most valuable and important change in banking organization that had been introduced since the Civil War. He therefore gave the bankers a tentatively favourable reply and proceeded to take the matter up with President Wilson. He found the latter, however, unexpectedly opposed to it. Nevertheless, the President was indisposed to deny what Mr. Glass had partially agreed to and he therefore gave a somewhat unwilling assent to the proposal.”

The only other feature of the currency bill around which a conflict raged at this time was the note-issue provision. Long before I knew it, the President was desperately worried over it. His economic good sense told him the notes should be issued by the banks and not by the government; but some of his advisers told him

Mr. Bryan could not be induced to give his support to any bill that did not provide for a "government note." There was in the Senate and House a large Bryan following which, united with a naturally adversary party vote, could prevent legislation. Certain overconfident gentlemen proffered their services in the task of "managing Bryan." They did not budge him. His public life had been spent in advocacy of a government issue, and he was willing to stake his political existence on this point. The chairman of the House committee was not disturbed, because he did not dream President Wilson would permit such an unscientific blur on the bill. On May 15th, Mr. Wilson was told by me in a note:

"Mr. Bryan has twice indicated his desire to discuss currency matters with me; but, if I may venture to say so, I think his talk should first be with you. I find he is opposed to bank issues and disposed to government issues. It is my notion that this would get us into all sorts of trouble."

There is reason to think that President Wilson abstained from talking personally with Mr. Bryan on the subject. He was a schoolmaster and had not overmuch patience with whims. Of course, he would not by harshness wound the

sensibilities of his Secretary of State; therefore he relied on others to win over Mr. Bryan. They could not do it, particularly as the chairman of the Senate committee agreed with the Nebraskan. When a decision could no longer be postponed the President summoned me to the White House to say he wanted federal reserve notes to "be obligations of the United States." I was for an instant speechless! With all the earnestness of my being I remonstrated, pointing out the unscientific nature of such a thing, as well as the evident inconsistency of it. The President was reminded of what was behind the federal reserve note: the liability of the individual member bank, with the double liability of its stockholders; the considerable gold cover with the 100 per cent. commercial secondary reserve; the liability of the regional banks, individually and jointly, as well as the double liability of the member banks; the banking instinct behind every discount and every rediscount transaction; the right of the regional bank to reject business and, finally, the power of the Federal Reserve Board to withhold notes.

"There is not, in truth, any government obligation here, Mr. President," I exclaimed. "It would be a pretense on its face. Was there ever a government note based primarily on the property of banking institutions? Was there

ever a government issue not one dollar of which could be put out except by demand of a bank? The suggested government obligation is so remote it could never be discerned," I concluded, out of breath.

"Exactly so, Glass," earnestly said the President. "Every word you say is true; the government liability *is* a mere thought. And so, if we can hold to the substance of the thing and give the other fellow the shadow, why not do it, if thereby we may save our bill?"

And this was the man they called a dreamer! This the man they insisted had no political sense! He had said more to the point in a sentence than I had in a speech; and again I learned that Mr. Wilson knew vastly more about the business than I did. Hence, a little while after, in the memorable debate with Vanderlip before eleven hundred bankers and business men under the auspices of the New York Economic Society, the chairman of the House committee, in defense of the currency bill, was forced to this turn:

"To those who advocate government issue, it may be said we have it here in terms, with discretion in the Reserve Board to issue currency on application or to withhold. To those who contend for bank issues, as I do, we may say that, in the practical operation of the system, you

have it here; because only upon application of a bank can the government issue. To those who affect solicitude for the government's credit, it may be pointed out, as a practical fact, that the security behind the notes is many times more than sufficient to protect the government before the note-holder could reach the Treasury counter. Thus we have yielded to the sentiment for a government issue, but retained the substance of a bank issue. The section constitutes a compromise; it provides a composite note. But no man here can put his finger on a solitary element of unsoundness in it."

The determination of this dispute, threatening to wreck legislation, was but another of many instances in which the patience and purpose and firmness of President Wilson prevailed. The bill was now ready to be presented as an "administration measure." It represented months of thoughtful consideration and suggestion by Mr. Wilson on one hand and an inestimable amount of labour by the chairman and committee expert on the other. Dr. Willis had become something more than a currency technician to the House committee. He was the devoted friend and adviser of the chairman. His equipment for the difficult business was unsurpassed, beginning with his invaluable experience

with the Indianapolis currency conference and extending over the years in which he taught economics as a professor at several important universities. As expert to the House Ways and Means Committee and in other such work he had become acquainted with legislative processes and was an accomplished draughtsman. While subject entirely to the direction of the committee chairman, his initiative was simply indispensable. He has received too little credit for his exceedingly important part in the work.

As already indicated, a point of great anxiety was the very natural indisposition of the new members of the Committee on Banking and Currency to accept a bill with the construction of which they had nothing to do. The situation required the intimate touch of a tactician, which the chairman of the committee was not. The President supplied a large part of the essential quality; and in this respect McAdoo helped amazingly. There was one member of the committee with an exceptionally clear intellect, who had the misfortune to be born with a hammer in his hand and a gibe on his tongue. He rarely ever agreed with anybody. Besides, he had a notion that a new man in Congress could attract little attention by going with the crowd; to be noticed he must raise a row. At my urgent request, the President one day sent for him to see

if he might be quelled. It did not take Mr. Wilson many minutes to find that this committeeman had a lot of sense. Quite as readily he discovered that his excess of personal vanity was as visible as the hair on his head. The President's skill in treating the case was so effective that the member left the White House actually imagining or affecting to think that the chairman of the banking committee was to be deposed and the currency bill given over to his charge. So sure was he of this that he had it wired as a front-page story to his home paper. There were one or two other impossible members; but as soon as the better balanced members came to realize that currency reform was not a personal matter and should not be obstructed on that account, friction disappeared and there was fine team work, with men like Bulkley, of Ohio, Phelan of Massachusetts, Korbly of Indiana, Patten of New York, Seldomridge, Weaver, and others equally zealous, standing with the chairman always against the dissidents. At the very outset, on June 19th, the chairman sent to each member a letter saying:

"I have this evening received from the public printer a limited number of printed copies of the tentative draft of a currency bill made at the suggestion of colleagues who served with me

on the subcommittee of Banking and Currency which held exhaustive hearings last winter on the subject of currency reform. I am sending members of the Banking and Currency Committee the copy of this tentative draft for such consideration as they may care to give it.

“There is, of course, no obligation whatsoever upon any member of the committee to agree to any provision of this bill. In its present form it simply represents the result of many months of hard work, based upon the hearings referred to and upon repeated conferences invited by the President and the Secretary of the Treasury upon the assumption that, as ranking member, I was to be made chairman of the Banking and Currency Committee. This tentative draft was only completed last night and I am putting it in the hands of my colleagues at the earliest practicable moment. Needless to say, it is any member’s privilege to propose alterations to any part of it or to reject it entirely, as his judgment may suggest. Feeling assured that I shall have your cordial coöperation in the effort to secure a satisfactory measure that will solve this long-standing problem in the interest of the country, I am,” etc.

This overture of the chairman was supplemented by an authorized invitation of the Presi-

dent to each member to a conference on the evening of June 20th at the White House. All the members accepted; but the bitterness of the dissidents appeared to be reflected in the note of one of them, who protested that he did not "conceive any service that I or any other member of the committee can render, as the President already has committed himself on the principles and policies of the bill you, Owen, and McAdoo are said to have drafted." However, there was a full attendance at the White House conference, and the President handled the matter impressively. A good spirit prevailed, only one member exhibiting the least sign of ill temper. He was so entirely rude that the President at one stage was sorely tempted to invite him to leave the room. It was sheer insensibility; for the same man was so unaware of having been offensive and so sure of the President's favour that, at the next ensuing election, he sought a letter from Mr. Wilson advocating his return to Congress.

From this time, the fight for the currency bill was transferred to the fourteen majority members of the Banking and Currency Committee of the House. There it encountered little opposition except from a very small group of agrarians, the sum total of whose antagonism found expression in obstruction. After the strong men among the members got their bear-

ing, they took and consistently maintained a position of intelligent and aggressive advocacy of the measure. There were minor alterations and readjustment of details; but examination of the minutes now before me, showing every motion made and the vote thereon, discloses no single amendment of the essential provisions. Even obstruction and delay were almost entirely due to the fact that the few dissidents had put themselves in contact with Representative Henry, chairman of the House Committee on Rules, who, thinking he was backed by Mr. Bryan, was desperately opposed to the bill as framed and sought by every conceivable expedient to prevent its passage. As fast as we would proceed in the committee room below, this adversary in his committee room above us would devise new schemes for presentation by his sympathizers on the banking committee. As occasion would seem to require, the Secretary of the Treasury, who was an adept in persuading men, would do effective missionary work, as would Speaker Clark and Oscar Underwood, when apprised of infrequent dissensions in the committee. Three times the President ventured to intervene to pacify the eruptive element. The first and only time the writer ever heard Mr. Wilson swear was when the chairman of the committee, exasperated beyond endurance at a particularly

senseless and flagrant outbreak, threatened to resign. "Damn it, don't resign, old fellow; out-vote them!" the President exclaimed. And the advice was accepted; the obstructionists were overcome every time.

CHAPTER VIII

A MEMORABLE CURRENCY CAUCUS

*The Wreckers Marshal Their Forces—Bitter Assaults on
Federal Reserve Bill—Bryan Sides with the President—
Enemies of the Measure Routed*

IT NOW remained to fight the measure through the party caucus. The newspapers were full of stories of revolt. The Bryan element, it was insisted, headed by Congressman Henry, of Texas, was going to tear the currency bill to tatters. The Secretary of State, the reporters had been assured, was behind the insurrection and would "measure strength with the Wilson element." Thus no little excitement was created and a lively time was expected. As to this, nobody was disappointed. There was a lively time. Indeed, it was a memorable party caucus. No such scenes were ever witnessed before, nor have they been enacted since. Henry and his group persistently asserted they would control; and they did number quite a formidable bloc of votes. The Texan was an engaging talker and an exceedingly likable fellow; but he knew as

much about banking and currency questions as a child about astronomy. He was not a vicious demagogue; but a very insinuating one. He confidently relied on rallying the members from the back-country districts and intended to conjure with the still-magic name of Mr. Bryan. He presented his proposals with great ingenuity of speech and made a passionate plea for the defeat of the "Wall Street" currency bill, meaning the bill agreed on by the Democratic member of the Banking and Currency Committee. He was supported by the one or two members of the committee who were always incorrigible.

The currency scheme evolved by this passionate band of economic guerillas was "fearfully and wonderfully made." Among its various memorable provisions was one permitting labour unions to designate one member of the Federal Reserve Board who should be a bona-fide labourer, and the farm unions one member who should be a bona-fide farmer, and certain bankers one member to be experienced in banking. All ex-Presidents of the United States were to be pensioned on the system and paid salaries out of its funds by being constituted ex-officio members of the Federal Reserve Board, to assume full life-time membership as vacancies should occur, except that not even ex-Presidents of the United States were eligible to succeed the bona-

fide labourer or farmer or banker. These positions were made perpetually sacrosanct.

The bill called for the issuance of three kinds of legal tender currency in addition to the kinds already outstanding, to be classified as "Agricultural Currency," the \$200,000,000 of which was to be available to corn, cotton, and wheat growers; "Commercial Currency," the \$300,000,000 of which was to be available to general commerce; "Industrial Currency," the \$200,000,000 available for public works in the states and their sub-divisions. The Commercial Currency was to be handled by the reserve banks under general direction of the central board. The Industrial Currency was to be parcelled out to states and territories according to population and wealth for internal improvements, with state, municipal, and county bonds as security to the United States Government, which was obliged to redeem the notes on demand in gold. The Agricultural Currency was to be loaned by the reserve banks direct to corn, cotton, and wheat growers under guarantee of a minimum price of 60 cents a bushel for corn and \$1 per bushel for wheat and 15 cents per pound for cotton. The loans to commerce were to be purely permissible; the loans for public works were apparently to be automatic and to extend for twenty years each; loans to corn, cotton, and wheat growers were

to be positively compulsory, no discretion being lodged with the banks.

The reserve banks were to deal directly with the growers. Any producer of one bale of cotton or as much as twenty bushels of grain who should present a warehouse certificate was to get his loan, which was not to mature until the product should reach the minimum price prescribed by law! The existence of stock-raisers, orchardists, poultrymen, dairymen, tobacco planters, producers of commodities far exceeding in market value any of the favoured farm products, was not recognized in the text of the bill when it came to issuing these various stripes of currency.

It is not necessary here to dissect the grotesque measure. Merely to state some of its contents is to expose its incredible absurdities. The thing vividly revived that period of French history when long imprisonment, and later the guillotine, was the penalty vainly denounced against those who refused to exchange their wares for the depreciated currency of the realm; and I ventured to ask if it was proposed to dangle the hangman's noose before the tradesmen of America when they should turn from Henry's currency as they would from the drippings of a pest-house! Little time was wasted in the party caucus on this foolish bill beyond the specious talk of its proponents. The dis-

cussion raged around the real Federal Reserve bill.

Naturally, it fell to the chairman of the Banking and Currency Committee to explain and defend the provisions of the committee bill. This was done in measured terms and a repressed tone. But when it came to dealing with Mr. Henry's strictures on the committee and his acrid criticisms of the President, together with his little less than ludicrous plea for his "corn-tassel" currency, the retort assumed a rather more animated tenor. Quoting from a speech by Mr. Bryan in the House years before against "executive aggression," and twisting Andrew Jackson's federal bank fight into an imaginary analogy to his side of the immediate controversy, Henry fiercely assailed President Wilson for urging the passage of the pending measure. Rejoining on this point, the chairman of the committee reminded the caucus that "the bitterest complaint of Jackson's veto message of the United States bank bill was the failure of the proponents of that measure to advise with him upon the provisions it contained. And yet, because Woodrow Wilson, in the exercise of his constitutional privilege, pleased to confer with members of the Banking and Currency Committee concerning provisions of this bill, he is arraigned in a Democratic caucus as a political martinet.

I take leave, as a Democrat associated with this administration in a great work for the country, to express the belief that no man ever lived whose course of conduct in public affairs was prompted by a higher degree of patriotism than the conduct of President Wilson in his effort to reform the banking and currency system of the nation."

The caucus was prepared for Henry's attack on the President, because it was definitely known that Mr. Wilson had flatly told the Texan that his persistent antagonism to the currency bill constituted a challenge of the President's leadership of the party. But it was not known by many that Bryan was out of tune with Mr. Henry. Hence the announcement came like a thunder-clap when I read from a letter of the Nebraskan, just handed me, this paragraph:

DEPARTMENT OF STATE
Washington, D. C.

August 22/13.

MY DEAR MR. GLASS:

. . . The papers have reported members of Congress as presenting views which were alleged to be mine. I do not know to what extent these reports may exaggerate what has been said and done; but you are authorized to speak for me and

say that I appreciate so profoundly the service rendered by the President to the people in the stand he has taken on the fundamental principles involved in currency reform, that I am with him in all the details. If my opinion has influence with any one called upon to act on this measure, I am willing to assume full responsibility for what I do when I advise him to stand by the President and assist in securing the passage of the bill at the earliest possible moment. . . .

Very truly yours,
W. J. BRYAN.

It is scarcely possible to depict the scene that ensued. The pleasure manifested by the friends of the currency measure was not exceeded by the exhibition of rage by the antagonistic group, if it were accurate longer to think of them as a group. Henry was white with anger as the caucus roared with cheers of derision, repeated over and over again. A Texas colleague, member of the Currency Committee, sought to make a diversion by a wrathful attack on Bryan, calling out above the din that to his personal knowledge "Bryan does not know a damn thing about the provisions of this currency bill." This was too late a discovery, suggested the defenders of the measure. "How prodigal would have been the praise of the wisdom and patriotism of Mr.

Bryan had he taken part with those who condemn, rather than with those who applaud, the effort of the administration to rescue the country from the continuing peril of a dangerous banking and currency system!" exclaimed the chairman of the committee, as he proceeded to examine in detail and flay the preposterous nature of Henry's proposals.

Representatives Bulkley, of Ohio, and Korbly, of Indiana, defended certain sections of the bill with notable spirit and ability, while Michael Phelan, of Massachusetts, contributed his cogent and incisive qualities to the discussion—and his Irish wit. Henry invoked Samuel Untermyer in behalf of a proposed "interlocking-directorates" amendment to correct a gross evil disclosed by the Money Trust investigation; but Bulkley quickly quoted Untermyer as disapproving the attempt to confuse currency reform with the directorate question, and as saying: "Nobody but a vicious marplot would deliberately seek to delay or complicate legislation under the existing tense and delicate conditions, which demand immediate relief." Oscar Underwood aided effectively on this point; and Mr. Henry was literally stripped of his following when the discussion was ended.

The few who remained obdurate to the end were simply indurated against every approach

of understanding and were, therefore, impervious to argument. This seemed strictly true except in one or two cases, where infuriation usurped the seat of reason. When this occurred the caucus witnessed characteristic explosions by those unhappy souls whose chief contribution to any discussion is always personal vituperation arrantly applied in circumstances which make it perfectly safe to use epithets. With the tumult subsided and rational debate exhausted, we at last had the roll-call ordered for a record vote. On the proposition to approve the currency bill and make it "an administration measure," as the President desired, the vote in caucus stood 168 for to 9 against! President Wilson thereupon gave out a statement at the White House in which he said:

"I am proud, as every Democrat must be, of the way in which the committee and the caucus have accomplished a consistent piece of constructive work. With the frankest discussion and under the ablest leadership the Democrats have shown their capacity as a party to serve the country by an admirable piece of business legislation. It must stimulate the country to see such evidences of harmony along with constructive purpose in a work of no small complexity and difficulty."

Mr. Bryan, who grew by degrees into the harmless habit of issuing companion-pieces to the public proclamations of the President, also gave out a statement to the press which, besides being pertinent, very likely helped to confirm several of his zealous disciples on the Senate side of the Capitol in their purpose to support the currency bill. Among other things of point he said:

“I am glad to endorse earnestly and unreservedly the currency bill as a much better measure than I supposed it possible to secure at this time. I had doubted the wisdom of attempting currency legislation at this session for fear the difficulties in the way would prevent agreement. Conflicting opinions have been reconciled with a success hardly to have been expected.

“The great point of advantage to the banks—an advantage that ought to make them willing to accept the bill without question—is that it furnishes a currency which they can secure in time of need without having to put up bonds as security. The bond requirement largely neutralizes the advantage of the money issued on them as security, because the banks cannot draw back more from the government than they have already invested in the bonds. But under this

bill where a bank can put up its good assets it is able at all times, without sacrifice, to secure any additional circulation that the community may need; and the governing board can be trusted to issue its treasury notes to the regional reserve banks on terms that will be fair and just.

"The business interests will, I think, welcome this bill as an unalloyed blessing. It gives them, through their banks, a promise of relief in any time of stringency, and it gives this promise without putting in the hands of the banks a power that might be used against the public."

Champ Clark had no great familiarity with the details of the currency measure, nor had he any special knowledge of banking technique; but he took the intensest interest in the polemics of the occasion, not only in the caucus, but in the House also. He seemed as an old war horse sniffing the battle and enjoying every moment of it. And there was a battle to enjoy! Always excitement was at a high pitch and frequently the hall resounded with cheers. Once or twice the enthusiasm became a riot, men standing in their chairs and tossing hats to the skylights. When the fight had ended, the Speaker of the House was good enough personally to congratulate the chairman of the Banking Committee on his management of the bill; and, three days later,

Mr. Clark showed he had not yet recovered his equilibrium by sending to the committee room a written note of praise so extravagant in its terms that to include it in the text of this chronicle might be construed as an attempt to outrank Professor Seymour's "unseen guardian angel." This would never do; for while Colonel House, when the fate of the measure was at stake, appeared nowhere in evidence as a substantive factor in the struggle, there can be no doubt of Dr. Seymour's ability to place him exactly where an invisible spirit properly belonged in such a tumult. "Historicity," given a chance, is equal to any task. And, since Colonel House confesses that three banker friends on another occasion acclaimed him their financial "Moses," what is to hinder Dr. Seymour from transfiguring him into another Old Testament hero and have him pose as "Elisha at the Caucus," with his mystic troops of horse and chariots of flaming fire hidden in the clouds, eager to subdue the hosts of the wicked?

A tremendous furore was raised in certain quarters about an alteration in the redemption feature of the bill, the purpose being to have it appear that Mr. Bryan had suggested the change as a "blow at the gold standard." It was rank nonsense. Mr. Bryan had no knowledge of the alteration; and when it was pointed out that the

language as readjusted was a literal repetition of the text of the National Bank Act and of the famous Aldrich bill, which the bankers had approved without a word of questioning, the critics should have felt ashamed of their false alarm. But they were not. They imagined they could rally enough antagonism around this perfectly spurious objection to be effective against the bill itself. Newspaper criticism became vicious, and concerted protests by suspicious bankers poured in. The Secretary of the Treasury sent them to me, and all of the bunch were answered in a single brief statement to a banker at New Albany, Indiana, which was given to the press. It read:

“Your letter to Secretary McAdoo has been referred to me with the request that I make answer to your inquiry concerning the gold redemption feature of H. R. 7837. There is no mystery whatsoever connected with the matter and the response to your inquiry is quite simple.

“In the original draft of the bill it was provided that the redemption of notes at the Treasury Department at Washington should be in ‘gold,’ while redemption at the counters of the banks might be in ‘gold or lawful money.’ When the matter came up for consideration in the committee, a member of the committee, bitterly

prejudiced against the banks, made the point that we were exacting gold redemption from the government while permitting the banks to redeem in 'gold or lawful money.' He, therefore, moved to strike out the words 'or lawful money,' which was done. So that for a few days it appeared that all redemption should be in gold. Subsequently, the same member of the committee, feeling that the action taken was inexpedient, moved to restore the words 'or lawful money,' which was done: and this is all there is to it, except that it may be added that members of the committee, having in mind the Act of March 14, 1900, considered 'gold' and 'lawful money' practically interchangeable terms and were not greatly concerned as to which of the two phrases should be employed. The restoration of the words 'or lawful money' as an alternative method of redeeming notes at the regional banks is no departure from the gold standard, and it is perfectly silly for anybody to contend otherwise."

That Mr. Bryan had not the remotest desire to revive the silver issue at this time was conclusively shown by his action with respect to another proposed amendment to the currency bill. In the caucus, a member of the Banking Committee who was opposed to the measure thought, at the last moment, to rally the ship-

wreckers by offering an amendment to substitute "coin" for "gold" as the final medium of redemption for the federal reserve notes. This would have taken us off the gold standard. The proposition was referred to the committee, which was called in the recess. Meanwhile, the chairman beat the proponent of the amendment to the 'phone and got Mr. Bryan on the line. The meaning and evident purpose of the thing were quickly explained to him and readily comprehended, so when the proposer of the motion a few minutes later talked with Mr. Bryan, he got a cold reception. Mr. Bryan made it quite plain that "doing something for silver" was not pertinent to consideration of a currency bill and the proposal was promptly sidetracked. It is not to be believed that its proponent hoped to embody the suggestion in the bill. He had a good mind and knew better. But he also had a severe and turbulent disposition; hence, it was inferred that the motion was a mere subterfuge to create trouble.

When the caucus ended, the clerk of the House committee was directed to summarize the alterations made in the bill as reported. This he did with this conclusion, borne out by an examination of the minutes of the caucus now before me as I write: "Except by initiation of the Banking and Currency Committee itself, there has not

been written in the bill, from one end to the other, a single sentence which has altered in the remotest degree the essential provisions of the measure as originally reported by the committee to the caucus. There were inserted in the bill exactly nine minor amendments not offered by the committee, affecting only the bill's phraseology; but all of them added together would not aggregate as many words as are contained in one half of any one of the fifty-one pages."

CHAPTER IX

SHARP FIGHT IN THE HOUSE

*Powers of Federal Reserve Board Assailed—False Issue
Raised Over the Gold Standard—Bill Passes House
Overwhelmingly—Flood of Congratulations*

THUS the measure, with the party caucus label, went back for formal consideration by the House Banking and Currency Committee, the Republican members of which were now called in consultation for the first time. Various minor amendments were proposed by the minority members, several of which were accepted. Mr. Hayes, of California, ranking Republican member, and a very fine man in every way, tendered a provision for a savings department for national banks and told the committee chairman that this amendment would, in his opinion, insure a unanimous committee report. He was much mistaken in this supposition; nevertheless, his provision was attached to the bill, only to be bitterly assailed by some of his party associates in the House, and was stricken out in the Senate.

As reported by the committee to the House of Representatives the currency measure was, in

advance of further discussion, assured enough votes to pass it. The party caucus had fixed that. Forty-eight Republicans voted for it notwithstanding the savage attacks by their leaders. A great clatter was raised by these gentlemen about "King Caucus" and about "gag law," but this was effectively silenced by bringing in sharp contrast the action of the Republicans, the most arbitrary ever taken in Congress, in passing the Vreeland-Aldrich emergency currency bill. On that occasion, by caucus action, the committee was discharged before the bill could be printed and put in its possession; and the bill, not yet dry from the printing press, did not reach the House until debate had proceeded for an hour. It was passed in five hours under a rule which prohibited the offering of a single amendment. Not ten members actually knew what it contained. The federal reserve measure, on the other hand, had been considered for months in committee, discussed ten days in party caucus, debated in general for five days in the House itself, amendments without number offered to its provisions, and the freest controversy allowed to persist in the House for three weeks.

Aside from inevitable partizan antagonism, frequently devoid of knowledge and reason, the main objections to the bill, urged with vehe-

mence, were as to the powers of the central board, the compulsion of national bank membership, and the transfer of bank reserves from the money centres to the proposed regional banks. Great stress was laid on the "confiscatory" nature of the provision which authorized or compelled one federal reserve bank to rediscount the discounted paper of another federal reserve bank. And yet it was this very operation in the post-war period that transferred \$250,000,000 from stronger to weaker regions and saved at least one federal reserve bank from being wrecked. Moreover, it cured at the time many bad situations in credit extensions and averted a vast number of commercial crashes. The critics of the bill got nowhere with their attacks on the powers of the central board.

At one stage of the discussion, considerable confusion ensued on the Democratic side owing to a misinterpretation of the rediscount privileges of the bill. The argument revolved around the definition of "investment bills" in section 13 and the eligibility for rediscount of warehouse certificates for stored agricultural products. The complication caused a disturbance which, behind the curtain, lasted several days, the chairman of the committee insisting there was no discrimination against farm products, while some of his colleagues urged to the contrary.

The difference of view would have assumed no threatening aspect but for the fact that there was a group always eager to seize on any excuse to create trouble; and while members like Asbury Lever and Byrnes of South Carolina, Pat Harrison of Mississippi, and Oscar Underwood were deadly in earnest in presenting this objection, there were others not above playing their accustomed game of evil politics. The language of the section was altered so as to clarify its original meaning, which was to favour, rather than discriminate against, farm products. So anxious to be identified with this apparent "concession to agriculture" were some of the demagogues who were routed in the caucus that they authorized Mr. Underwood, the Democratic floor leader, to say to the chairman of the Banking Committee that, if the latter would permit their group leader to offer the changed provision on the floor, they would abandon further attempts to amend the bill and catch the party step. Having whipped them in caucus and rendered their opposition futile, their proposal was flatly rejected and the change was made as a committee amendment to the bill. This rebuke did not prevent these same demagogues from going back to their districts and claiming credit for a concession due to the reasonable insistence of sane and loyal members of the type indicated.

Toward the close of the discussion in the House, there was another feverish outbreak about an imaginary "assault on the gold standard," which for a time delayed the passage of the bill. A group of Republican members, professing a desire to consider the measure in a non-partizan spirit, yet hesitating to go against their party leaders, projected the criticism against the bill that it rescinded the act of March 14, 1900, "fixing the standard and providing for the parity of all forms of money." This objection, they seemed to think, would supply a tangible excuse to vote against this "caucus-made measure." Challenged over and over again to point out the provision of the bill which could be so construed, they talked a lot of fudge about the "lawful money" redemption feature, as if lawful money were not synonymous with gold under existing law. It was so entirely clear that there was not a thing in the bill that adversely affected the gold standard, that the managers of the measure were not a little perplexed to know the covert meaning of this tail-end clatter. We were forced to believe that it was invented as an excuse to vote against the bill; and, so suspecting, all but one member of the Banking Committee urged the chairman to accept an amendment offered by Mr. Fess (Rep.), of Ohio, explicitly declaring that nothing in the bill should be construed to

repeal the act of March, 1900, providing a gold parity for all forms of money.

The Democratic caucus had not acted on this specific proposition, so a group on the Democratic side, not yet recovered from the free silver delirium, felt at liberty to make a counter demonstration against the Fess amendment. Their outspoken objection was calculated to appeal to the spirit of party. They pronounced the proposal "a useless Republican rider on a Democratic currency measure." It was certainly useless, and it had Republican origin; but the question was how it might most tactfully be disposed of. The President, constantly in contact with the situation, and Mr. Bryan, known to be averse to a revival of the "free silver" issue, urged that we cut this excuse from under the Fess group by agreeing to his motion; so, having drawn from Mr. Fess a pledge to vote for the bill should his amendment be accepted, and also having slightly altered the text, it was so ordered. At the last moment, a separate vote on the amendment was demanded, which resulted in its overwhelming adoption. The currency bill was then passed in the House by 287 for to 85 against, a clear majority of 202 for the measure. But 3 Democrats voted against the bill, while 48 Republicans voted for it and 82 against it.

This overwhelming victory for the bill in the House, after a hard and grinding fight, was heartening to the friends of currency reform throughout the country. Certain proof of this was afforded in the flood of telegrams and letters received by the chairman of the Banking and Currency Committee. Their number was great enough to fill a score of pages in this chronicle; but it is, perhaps, inadvisable to present here more than two or three, which have a peculiar significance. First of this kind was a letter from the Secretary of the Treasury, whose intimate association with the work in all its stages gave a tone of authority to what he was gracious enough to write, a facsimile copy of which appears on the page following.

Among the public men in Washington, not one had a riper experience or better discernment of banking and currency questions than the late Senator John W. Weeks of Massachusetts, afterward Secretary of War in the Cabinets of Presidents Harding and Coolidge. He was for some years my colleague on the House Committee on Banking and Currency and also was a member of the National Monetary Commission which reported the Aldrich bill. He was one of three Republican Senators who voted for



THE SECRETARY OF THE TREASURY
WASHINGTON

September 20, 1913.

My dear Glass:-

I want to congratulate you sincerely upon your really great achievement in the passage by the House of Representatives of the Glass Bill to reform the currency system of the country. It is a measure upon which you have done so much tedious, intelligent, and effective work that I can well understand your gratification now that the worst of your labors is over.

You are, more than any other single man, entitled to the credit for this real victory in the cause of the people of this country, and your name will always be linked with the first constructive financial measure passed by Congress since the enactment of the National Banking Act. You have led the fight with singular ability and with a high order of statesmanship. I am only too glad to have the opportunity of paying this just tribute and of telling you, as well, of the great pleasure and satisfaction it has given me to be your earnest, although not always effective, colaborer and coadjutor in this needed measure of vital reform.

Always, with warm regards, I am,

Sincerely yours,

A handwritten signature in dark ink, appearing to read "W. D. Hoar", written in a cursive style.

Hon. Carter Glass,
Lynchburg, Va.

the federal reserve bill. His letter to the chairman follows:

September 29, 1913.

HON. CARTER GLASS,
House of Representatives,
Washington, D. C.

MY DEAR GLASS:

I have failed in my duty and pleasure in not more promptly congratulating you on your success in passing the currency bill, an Herculean task which must have tried your capacity, nerves, and patience to the limit. And while there is very much in the bill with which I am in entire approval, from some parts of it I dissent; but that need make no difference in my appreciation of the value and importance of your service.

Sincerely yours,
JOHN W. WEEKS.

In a note to the Secretary of the Treasury early in June, I incidentally described Festus J. Wade, of the Mercantile Trust Company, St. Louis, as "the fiercest, but frankest of the adverse banking group." He was a belligerent without guile; and, as a member of the Currency Commission of the American Bankers' Association, he was in constant contact with currency

legislation. When the federal reserve bill passed the House, this message came from Wade:

St. Louis, September 23, 1913.

HON. CARTER GLASS,
Washington, D. C.

Hearty congratulations on passing your bill, even though I do not approve all its provisions. I want to thank you cordially for your devotion to the cause of banking and currency reform. One becomes a better citizen by coming in contact with men entrusted with regulating the affairs of the nation and there finding such untiring energy, unfaltering integrity and indomitable spirit.

FESTUS J. WADE.

Of course, the committee expert, Dr. Willis, who for months had been the chairman's right hand, was quick to send felicitations from New York, saying: "At the first opportunity, I congratulate you on the brilliant success in passing the banking bill. The way in which it went through makes action by the Senate almost unavoidable."

As already indicated, the opinions and advice of various trained economists had been sought

at the very inception of our work. Few, if another one, of these exhibited a more sustained interest in currency legislation than Professor J. Laurence Laughlin, of the University of Chicago. He was associated, as I recall, with the persistent activities of the National Citizens' League, which appeared to be earnest, if not always wise. Dr. Laughlin himself greatly desired to be helpful. He seemed genuinely pleased when we had "weathered the stormiest period," and sent this cheering message from East Jaffrey, New Hampshire:

"I have been watching the course of events very closely, as they indicate the final success of the currency bill. I wish to congratulate you on the skill, courage, and political judgment you have shown in handling the committee and caucus. When one considers the bigness, intricacy, and insanity connected with an important currency measure, your achievement becomes one of the epoch-making events of our monetary history. I think the country will force the Senate to act now, without postponement, after you have done so admirably in the House."

The well-nigh universal interest in currency reform found expression in scores of messages from prominent bankers, business men, and col-

lege professors, publication of which now, after thirteen years have intervened, could only revive my personal sense of gratitude, without imparting interest to this narrative. The few felicitations presented are given solely because of their special significance.

As has been several times said, no chairman of a congressional committee was ever happier in his associates than the present writer had cause to be with the greater number of the members of the House Banking and Currency Committee of the Sixty-third Congress. The staunchness of so many accentuated the surliness of one or two. Besides having spirit and capacity, the committee members were steadfast in their friendship. They were of immense help in the currency fight, especially after the bill got in the caucus and on the floor of the House, and even after it went to conference. It would be but a repetition to say that the vital leadership remained always with the President and was of an inspiring description. There was, however, another factor in the struggle, and it would be an offense against the whole truth to omit the statement that Mr. Bryan, with every opportunity to do infinite mischief by yielding to insistent appeals to revive certain rejected theories of finance, stood loyally with President Wilson and, in at least one exigent period, was of incalculable

help. It was in full recognition of this that the chairman of the committee sent him this note after the passage of the bill by the House:

Washington, D. C.,
September 25, 1913.

MY DEAR MR. BRYAN:

Looking back over the remarkable campaign for currency reform just ended in the House, one thing stands out, conspicuous in the retrospect, and that is that we are immensely indebted to you for effective aid in critical periods of the contest in committee and in caucus. I desire to thank you for your great assistance to me and to the cause, and also to express my personal gratification at the manner in which you have disappointed your enemies and pleased your friends by standing firmly with the President for sound legislation in behalf of the American people. The country and your party are greatly obliged to you for the skill and discernment with which you have helped along the fight, and I am particularly grateful.

Sincerely yours,
CARTER GLASS.

HON. WM. J. BRYAN,
Secretary of State,
Washington, D. C.

CHAPTER X

THE STRUGGLE BEFORE THE COUNTRY

Desperate Fight to Postpone Action—Concerted Attack by Bankers—The Vanderlip Central Bank Scheme—A Notable Debate

PASSAGE of the currency bill by such an impressive majority in the House, with a surprisingly large contingent of Republicans joining with their Democratic associates in the effort to set up a safeguard against future financial disturbances, did not avert a further hostile demonstration. It seemed to whet the appetite of certain groups for a drive against the regional bank system and in favour of a more consolidated scheme, readily controlled by a few great interests. It had never once occurred to the more powerful banking elements that they could be thwarted in their well-organized effort to put through Congress their Aldrich plan for a central bank or some scheme of a like nature. Halted now in their expectations, they still imagined they could defer action until their lines could be reformed. Soon after serious consideration of the bill was begun,

President Philip Stockton, of the Old Colony Trust Company of Boston, had said to the New York *Times* that he "had it on good authority that the Senate will not take up the currency bill at this session"; and now it was announced in the Washington dispatches of this and other newspapers that "definite information was obtained to-day that a resolution has been prepared by a member of the Senate Banking Committee to defer Senate action on the currency bill till December." The assault on the House bill was projected from two angles, one involving strategy and the other bombardment. The strategy of the case was to postpone action by adjourning Congress. Both importunate and threatening representations were made to the President. The Senate, he was told, was in no mood to deal effectively with so complex a problem; the extra session had already been prolonged beyond reason, and Senators were thoroughly worn out. An adjournment would offer a little respite from the intolerable ordeal of a continuous session and enable the Senate to return in the early winter vastly better prepared to wrestle with the question. Many Senators, entirely sincere in their desire for currency reform, urged these considerations at the Executive offices, and not a few were exasperated by the "obduracy" of Mr. Wilson in refusing to accept

this view. The President was not even frightened by the threat of several Democratic Senators to join the Republican opposition and favour a central bank bill, but kept the Senate plugging away until two days before Christmas.

At the same time the American Bankers' Association, through its executive agencies, started a fusillade against various vital provisions of the administration bill. At one point of the compass an eminent banker would reveal "its alarming inflationary features" and, at the same moment, in another financial centre, the business community would be warned that the shift of reserve funds would "precipitate a disastrous constriction of commercial credits amounting to \$1,800,000,000!" It made no difference to these adversaries that both things could not happen at the same time. They kept repeating their nonsense. The old "compulsion" argument and the "confiscation" talk were accentuated and the "political control" bugbear was worked overtime. The great banks were mortally afraid to be bereft of country bank "call money" and country banks resented the idea of having their established relations with big banks molested by legislation. They were frankly afraid of the big banks. The whole line of adverse discussion seemed sordid. The future security of the country appeared to engage the

thought of few of those who were concerting these organized attacks on the currency measure. There were, of course, notable exceptions among the better informed bankers who were students of credits and deplored our archaic banking methods; but even these opposed decentralization and favoured a central bank of banks.

A favourite point against the House bill for awhile was the assertion that no hearings were had and that bankers had no opportunity to present their views. This talk persisted even as Senate hearings were proceeding, until both the falsity and absurdity of it were exposed by presenting a contrast between the wide nature of the testimony, oral and written, taken by the House committee as a basis for the bill with the contracted nature of the Senate hearings. The House hearings had covered a great range, embracing the views of every national group, whether bankers, merchants, manufacturers, credit men, farmers, labourers, currency experts, or college professors—a volume the extent and variety of which were beyond human assimilation. The Senate hearings, voluminous enough, were confined largely to the very bankers who had urged the identical objections before the House committee which they repeated on the Senate side. For weeks they hammered over old brass. The fight outside of Washington was

hotter and quite as persistent as at the Capitol. The aroused money power unmasked every available battery. Not only did the American Bankers' Association at Boston condemn the currency bill, but it prevailed with the United States Chamber of Commerce and hundreds of its subsidiaries to do likewise. It also had the ardent aid of most of the metropolitan press and the larger clearing-house associations.

The culminating attack was when the Big Bertha of the Eastern banking community was pointed at the White House. That is to say, Frank A. Vanderlip, of the National City Bank of New York, rushed to Washington with a carefully prepared central bank plan which contained all the "compulsion" and the "confiscation" and "political control" that he and others had charged against the federal reserve bill, and a good deal more besides. It was in contradiction of everything Mr. Vanderlip had ever said on the subject and in direct contravention of everything the central bank advocates had urged against "putting the government in the banking business." Mr. Vanderlip vainly sought access to the President. Mr. Wilson declined to accord him a personal interview. The President remembered the other attempt, back in June, to sidetrack the federal reserve bill for a strange device; and was resolutely set against

any more red-herring schemes to ditch the pending measure.

Mr. Vanderlip was not easily discouraged. He was not built that way. He promptly presented his central bank scheme to the Senate Banking and Currency Committee and enlisted in its behalf some very powerful and distinguished Senators. For days the newspapers featured the thing as quite certain to supersede the House currency bill. This and that and another Democratic Senator, it was insisted, had deserted the administration and embraced the Vanderlip bill. The President himself was represented to be slipping. This sort of gossip got to be exasperating; and finally Mr. Wilson put an end to it, as far as the White House was concerned, by issuing this statement:

“The President has warmly endorsed all the main features of the Glass-Owen bill. He regards the plan provided for in that bill as excellently suited to the existing conditions of the business of the country and in every essential particular sound and calculated to render the business men of the country a great and immediate service. He believes the early enactment of the bill into law is expected and demanded by the most thoughtful business interests. The evidences which have reached

him of the support of the country are unmistakable and overwhelming."

This clarified things a great deal at Washington. But Mr. Vanderlip and the bankers appealed to the country. Propaganda was becoming savage. Every resource of persuasion and every expedient of coercion that could safely be employed were set in motion for the central bank scheme. At the personal request of the President the chairman of the House committee accepted invitations to defend the House bill at various large centres, notably before the Chicago Association of Commerce and the Economic Club of New York City. The latter engagement involved a joint discussion with Mr. Vanderlip. The stage was set for the occasion. It was to be a "Roman holiday" for the central bank proponents. The ballroom of the Hotel Astor was decorated as never before. The boxes of the mezzanine were gay with fashion and beauty. Below were seated eleven hundred bankers and business men in evening dress. Sol Wexler, the brilliant New Orleans banker, was scheduled to share honours with Mr. Vanderlip in demolishing the federal reserve bill and in acclaiming the central bank project. Mr. Wexler could not get there and Professor Joseph French Johnson spoke in his stead. Owen, of the Senate Banking Com-

mittee, and the country-editor chairman of the House committee were listed for the sacrificial offering. Vanderlip was given a royal reception and made a remarkable speech, in which he did not fail to express resentment at the refusal of the President to discuss the currency issue with him. Repeatedly the air was white with waving napkins as the welkin rang with applause. As the great banker concluded his impressive address, floor and galleries witnessed a scene of unimaginable enthusiasm.

Having said this much, it better comports with good taste, perhaps, to let impartial observers say the rest. At one of the guest tables was Dr. Abbott, of the *Outlook*, in which periodical appeared this brief account of the debate:

“Those who think that discussions of the currency bill are always dry and technical should have been at the dinner of the Economic Club of New York City held at the Hotel Astor. It was the occasion of a remarkable debate upon the merits of the bill now before Congress—a debate in which Professor Joseph French Johnson, of the chair of Political Economy of New York University, and Mr. Frank A. Vanderlip, President of the National City Bank of New York City, opposed the bill, while Senator Owen of Oklahoma and Representative Carter Glass of

Virginia defended it. The appearance of Senator Owen and Representative Glass in this debate was of special interest because they have been active in framing the currency bill, they stand sponsors for it, it bears their names, and is popularly known as the Glass-Owen bill.

“Aside from the value of this debate as a contribution to public knowledge regarding the creation and construction and provisions of the bill, it was a notable illustration of the power of the orator to influence his audience by sheer force of character and intelligence. We suppose Mr. Glass would be the last man to regard himself as an orator—indeed, he apologized for what he feared was the ineffectiveness of his address on the ground that as a journalist he was a better writer than speaker. But his apology was unnecessary. He was the last speaker of the evening and began at a late hour; the financial sentiment of New York City is opposed to the bill, and therefore his audience of twelve hundred bankers and leading men of affairs was an unsympathetic one. Professor Johnson and Mr. Vanderlip had preceded him and had spoken with authority and effectiveness—one with the authority of the scientific economist and the other with the authority of the accomplished financier. But before Mr. Glass had finished he had his audience with him, eliciting laughter

for his incisive and witty comments and loud applause for his clear reasoning and for his manifestly accurate knowledge, not only of the bill, but of the history and the operations of American finance. Twice when he essayed to stop he was greeted with loud cries of 'Go on' from all parts of the room, and his speech, one hour long, was listened to with appreciative attention from beginning to end.

"Mr. Glass accomplished perhaps more than he himself realized in removing misconceptions, misunderstandings, and prejudices regarding the bill, which unfortunately have prevailed to too large an extent in the financial metropolis of the country.

"The entire country knows that the almost unanimous objection of the bankers to the bill has been based upon the feature of government control, so it was pointed out that the sole question here was whether the people would fare better under government control than under exclusive banker control of the country's reserve funds. The bankers protest that under the Glass bill the National Banks are 'compelled' to come into the system by law, whereas the Aldrich bill made their coming in a 'voluntary' matter. Mr. Glass demolished this objection by pointing out, amid the laughter and approval of his hearers, that the Glass bill 'compels

the bankers to come in, while the Aldrich bill made it impossible for them to stay out,' and pertinently asked what practical difference a banker could find in the two provisions.

"Mr. Vanderlip claimed that the Glass bill permits the government to issue 'fiat money.' Mr. Glass exposed the weakness of this objection by pointing out that 33.3 per cent. of gold and 100 per cent. of carefully scrutinized assets, representing material commodities, will underlie every dollar of the new notes.

"The most singular fact which was brought out at this dinner was the absolute right-about-face which the bankers of the country have made on the question of government control. Six months ago, having protested that the Glass bill provided too much government control, the bankers now protest, if Mr. Vanderlip may be accepted as expressing the best sentiment of American bankers, that the bill does not insure sufficient government control and power!

"Mr. Vanderlip, at the Economic Club dinner, presented the outlines of a bill which he has recommended to Congress. It provides for the establishment of a United States Central Bank, with branches throughout the country, the stock to be allotted to the people by popular subscription, the smallest subscribers receiving the first allotments, and the Governing Board to be

wholly appointed by the President, each governor serving for a term of fourteen years.

“To understand what a radical change this means in the attitude of the bankers one has but to read the resolutions of the American Bankers’ Association, passed only a few weeks ago, denouncing presidential appointments to the Federal Reserve Board as a dangerous injection of politics into American finance.

“Both Senator Owen and Mr. Glass answered the argument for a single central bank by showing that, while such a bank operates well in France or Germany—both of which countries are so small in area compared with the United States that either of them could be placed within the State of Texas—a country like the United States, measuring fifteen hundred miles north and south by three thousand miles east and west, cannot be properly served by a single bank, but needs six or eight or ten independent but affiliated banks under the supervision of the government. This need the regional banks are created to supply. In other words, the Glass bill is modelled upon our federal political system. It establishes a group of independent but affiliated and sympathetic sovereignties, working on their own responsibility in local affairs, but united in national affairs by a superior body which is conducted from the national point of

view. The regional banks are the states and the Federal Reserve Board is the Congress."

Beyond all question, Mr. Vanderlip made an exceedingly engaging address. It was deliberately arranged for effect throughout the country, particularly to impress wavering United States Senators at Washington and to strengthen the conviction of those who had accepted his central bank plan. Momentarily, he captivated his audience; but the address could not stand critical analysis nor endure the ordeal of a pounding debate. Not even his fine personality or his long and varied experience as a financier, with the inevitable partiality of his picked audience, could insure him against the fatal consequences of his amazing change of front, reflecting a degree of inconsistency that easily might be mistaken for insincerity. How astounding to him it was to sit there and see the napkins which had wildly applauded his address now beating the air in approval of his adversaries! More significant than the reaction of Dr. Abbott, as printed in the *Outlook*, was that of other guests at the dinner and members of the Economic Club. Mr. James Speyer, president of the club, wrote me next day: "I am sure you will be pleased to know that many of the men who heard you last night thought you got the better of your op-

ponents of the currency bill. Your mastery of the subject and fairness of views impressed everybody favourably, and I believe your visit has done a vast deal of good."

In a like vein wrote A. Barton Hepburn, of the Chase National Bank, and scores of others who heard the debate. A particularly pleasing note came from Hon. James T. McCleary, formerly an outstanding Republican Member of Congress from Minnesota, now an official of the American Iron and Steel Institute, who thought "the currency bill gained materially as a result of the debate last night." Decidedly the most surprising, as it was among the most gratifying, of the expressions received was from Professor Joseph French Johnson, who was Mr. Vanderlip's associate in the discussion. He wrote: "I want to let you know I enjoyed tremendously your eloquent and persuasive speech Monday night. Your bill is a masterpiece—that is assuming you are debarred from erecting a central bank. If I were convinced a central bank were not attainable, I suspect I should be found fighting on your side. I congratulate you on the excellent impression you made on that New York audience. If you ever get tired of the Southern climate, I advise you to come to New York, which would see that you stayed in Congress if you wanted to."

The presentation of these three or four comments on the Economic Club episode, conveying the tenor of many others, should not be taken to reflect too pronounced a feeling of personal satisfaction in the outcome of the discussion. They are a part of a memorable event; and the fact that they have been held in strict privacy all these years should serve as an effective foil against any suspicion that they are reproduced here out of an itch for publicity. The campaign against federal reserve legislation before the country is as pertinent to this chronicle as the fight in Congress. The Economic Club dinner was part of it; and the incident is given to show that it was not the "Roman holiday" it was expected to be. The two congressional chairmen were not completely crushed, nor did the address of Mr. Vanderlip, clever as it was, have any effective repercussion at Washington among Senators or elsewhere. It may rationally be doubted if it strengthened opposition to the currency bill in New York City.

There were other discussions before business bodies and associations devoted to scientific problems. Notably among these was the debate in New York City before the Academy of Political Science in which the currency bill was upheld by Senator Owen and Representative Bulkley in addresses delivered and by the chair-

man of the House committee in a prepared address which was read to the audience because the chairman was too ill to appear in person. According to the newspapers of the day, Bob Bulkley had on his fighting clothes and did not mince words. Clear-headed, self-confident, with a complete understanding of his topic, he was exceptionally aggressive. Very likely he took warning from the "heckling" to which the press said Senator Owen was subjected by the bankers; for, as one news report had it:

"Mr. Bulkley was not so restrained as Senator Owen in dealing with the opponents of the bill—especially when he answered objections of the American Bankers' Association. He caused some stir when he charged that the report of the American Bankers' Association currency commission had been 'written in bad temper,' and was 'not consistent with the dignity and fairness which such a body ought to possess.' He added:

"Possibly the American Bankers' Association does not care much about constitutional questions; but when they pass resolutions which charge that a bill publicly endorsed by the President of the United States and passed by the House of Representatives is an unconstitutional measure, seeking to confiscate their property,

they ought to care whether what they say has any foundation or not.'

"The keynote of Mr. Bulkley's address was a strong insistence upon government control of banking and currency. He said that the railroads and the other public utilities and the beef packers were not allowed to do what they cared to with their property without hindrance, and that the bankers should be subject to similar legal restrictions.

"'There must be government control,' he said, 'and I ask you all, and even those of you who are in Wall Street, to recognize this.'"

Mr. Arthur Reynolds, of the Des Moines National Bank, spoke strongly for a central bank, while Mr. Hepburn, of the Chase National, who had seemed reconciled to the bill passed by the House, now made some sharp criticisms of its principal provisions. Evidently he was inspired to do so by the *éclat* with which the Vanderlip central bank plan had been received by the banking community and by reports from Washington concerning the favourable reception of the scheme by certain United States Senators. However, this was three weeks before the Economic Club debacle and before President Wilson's emphatic rejection of the Vanderlip proposal. Mr. Hepburn, as a member of the

Currency Commission of the bankers, felt obliged by the ethics of the case to stand with his craft; but he was quick to perceive from the pronounced attitude of the President and the outspoken resentment of House leaders that the central bank plan, whether that of Aldrich or of Vanderlip, was doomed, and he was wise enough to exert his utmost influence for an abatement of the bitterness with which prominent bank spokesmen were persistently assailing the regional bank bill.

For a time the fight was furious. Nothing in Jackson's battle against the United States Bank charter exceeded the intensity of it. Personal asperities abounded. As directed against the President, these were a little guarded; but, applied to the patrons and managers of currency legislation, the criticisms were harsh and afflicting. Even so just a man as James B. Forgan, of the First National Bank of Chicago, in a moment of unrestrained exasperation, according to press reports, raged at the House committee before a conference of bankers in Chicago, insisting that bankers should be permitted to write the currency bill and ignorant politicians shunted aside. Mr. Forgan was alleged to have repeated part of a strictly personal conversation with the committee chairman, had in the privacy of the latter's rooms. This provoked a bitter retort

from me; but the incident, cleared away, cemented a relationship of mutual respect and trust which subsisted as long as Mr. Forgan lived. It takes character to confess and right a wrong; and, as indicative of the sturdy mould of Mr. Forgan, it may not be inappropriate to this narrative to append his letter:

HON. CARTER GLASS,
Washington, D. C.

DEAR MR. GLASS:

I have to sincerely apologize for the way in which I referred to you in my speech before the bankers' conference here last Friday.

The incident fully justified the rebuke you gave me in your reply through the press. I have nothing to offer in extenuation of my offense, except to assure you that it was wholly unpremeditated and occurred on the impulse of the moment during a somewhat heated discussion, with no other intention in my mind except to indicate that you would be glad to have the assistance of the bankers. As I cannot recall my exact words, I will not even question my having been correctly quoted. I will say, however, that the quotation separate from the context of the speech creates an entirely wrong impression of my meaning.

It was far from my deliberate intention to

reflect on you in any way, and the words as quoted are very far from giving expression of my good opinion of your ability or of my estimate of the integrity and uprightness of your character as these have been formed on my personal impressions through meeting you or through the high opinions of you which I have heard expressed by others who know you better.

I can only ask you to accept my humble apology, to forgive me and forget the incident, which I trust will do you no lasting injury.

Very sincerely yours,

JAS. B. FORGAN.

Instantly an acknowledgment of this fine letter went forward from the committee chairman, saying:

MY DEAR MR. FORGAN:

I beg to assure you it gave me much pain to make the comment I did on the press report of your speech before the bankers' conference at Chicago. . . . Your manly and gracious letter extinguishes every particle of resentment that I may have entertained on account of the incident and increases my regard for you. I shall dismiss the matter entirely and, always with best wishes, subscribe myself,

Sincerely yours,

CARTER GLASS.

The public had no real conception of the acrimony that underlay the struggle for currency reform. Its outcroppings were not confined to the acerbities of congressional interchanges. Not a few were the biting episodes of which the foregoing is but a type, except that there were enmities incurred which were never cured. The fight for better banking methods and for an effective currency system was no holiday fray; it was actually a savage contest, in which entrenched power and privilege resisted at every point of attack. Nor was the fight won by the Seymour-House brand of sorcery. Invisible spirits had no part in it. The dinners that a few deluded bankers gave Colonel House or that the latter gave to this beguiled group wrote no line nor altered any provision of the measure around which the conflict centred. Neither Dr. Seymour's "guardian angel" nor any other supernatural thing directed or averted a single blow struck or countered in the desperate contention. Under the almost imperious leadership of Woodrow Wilson, men of faith and will and purpose carried on the task, which was "deeper than the agitation of the troubled and frothy surface."

CHAPTER XI

A DIVERTING PARTY BREAK

*“Hammering Over Old Brass”—Purely Dilatory Tactics—
Defection of Senate Democrats—Caucus Action Invoked
—Reed Spoils Some Plumage*

AT WASHINGTON the currency controversy before the Senate committee was becoming animated. The bankers who had been unsuccessful in their effort to impress the House committee with the desirability of establishing a central bank seemed to take courage. They swept down on the Capitol in troops and produced the same arguments to a more sympathetic audience on the Senate side. From day to day the press reports represented the central bank idea as almost sure to prevail. All the Republican members of the Senate committee were said to be ardently for it, which was probably true, and three Democratic members were named as converts to the proposition; for a time this seemed true also.

An element of sectional antagonism was introduced from the West by both bankers and al-

leged experts, who resorted to the paltry artifice of pretending to believe that the bill reflected only Eastern banking methods. Testimony on this line before the Senate committee was promptly dissected and its utter foolishness exposed through the medium of influential Western newspapers before it could get a lodgment. It was gravely urged before the Senate committee by a reputed "currency expert" from Minnesota that the administration bill "could not be utilized in the Middle West for the reason that the banks in that section hold no paper maturing in ninety days; all their notes are made to cover a period of six months." This expert had the childish notion that the "execution" and the "maturity" of bank paper were synonymous terms; he had not sense enough to know that, whether bank paper is drawn for six months or twelve months or any longer period, it must at some time reach a maturity of ninety days or less! Supporting this specious attempt to array the country banks of the West against the bill, Western bankers who should have known better raised the same issue; and next day were confronted by a statement from the Comptroller of the Currency to the House chairman showing that the banks of two large Western cities alone had paper eligible for rediscount under the administration bill amounting to \$236,000,000 on

the very day these bankers asserted the Western banks had none! It was this kind of misleading and worthless testimony that was delaying and desperately endeavouring to defeat the currency bill! And not the least exasperating feature of the performance was the fact that the very bankers who were urging this false premise upon the Senate committee were men who had, without a grimace, swallowed the Aldrich bill with its twenty-eight-day limit as against a ninety-day paper limit in the bill they were now trying to kill! They were anxious to accept a bill under which their eligible paper was at zero, because it bore the name of Aldrich, and were trying to beat a measure under which their eligible paper ran into hundreds of millions because it didn't bear the name of Aldrich.

Another significant bit of testimony was given before the Senate committee which developed something of a sensation, because the incident revealed a concerted and carefully organized plan to discredit and then defeat the administration currency measure. There had been not a little comment on the fact that nearly all the adverse criticisms of the House measure before the Senate committee had emanated from bankers and professional men. So now, in the hearings, there appeared as a sharp critic of the administration bill a great merchant of New York City.

Nothing he said could possibly have been accepted as convincing by anybody who should trouble himself to apply the test of reason to it. The real point of his appearance was that he could truthfully be presented to the committee and the country as "a business man of great importance." He seemed not to know much about the currency problem, but he ventured to dwell with emphasis on the alleged constriction of commercial credits which would surely follow the passage of the proposed federal reserve bank scheme. It would immensely curtail business activities; hence, he favoured setting up a central banking association. His ideas were rather vague, but seemed to squint at something like the Aldrich plan. Obviously, he was nervous in giving his statement and was apparently glad when his ordeal ended. Next day, in New York, on being questioned directly about his statements before the committee by a person who had read in the papers what he was reported to have said, and asked to explain exactly how the contraction of credits predicted by him would occur, he frankly avowed that he knew nothing about the administration currency bill, saying he had been asked by certain influential friends in financial circles to help beat it and had been "coached" as to what he should say. This remarkable admission in some way got in the newspapers

and created quite a stir, although the hearings were not interrupted by the episode.

A procedure that was certainly unusual, if not unprecedented, was the summoning as a witness before the Senate committee of the expert adviser to the House committee to tell how the House bill was drafted. Current newspaper publications had it that the artful purpose of this was to demonstrate that the administration bill was drawn "by a Wall Street scribbler, under strict Wall Street auspices." No better response to such wretched nonsense was required than the stark fact that "Wall Street" was a little less than savage in its hostility to the administration bill. Yet the very gentlemen who were alleged to have been captivated by Vanderlip's "Wall Street" scheme were represented to be simultaneously anxious to discredit the administration measure by identifying it with exactly the same influences! Dr. Willis, the House expert, who resided in New York City, was excessively sensitive over the incident. He regarded his relation to the House committee as confidential and properly resented the idea of being catechized about his work there. My files disclose that he three times requested me to have him excused, which I declined to do. Senator Owen, chairman of the Senate committee, finally sent Dr. Willis word that he "should

feel at liberty either to accept or reject the invitation to testify, as no one was compelled to be heard." I promptly absolved the House committee expert from all confidential obligation and advised him to go before the Senate committee, which he did.

The printed hearings disclose that, if any Senator really imagined that the House bill had the "taint of Wall Street on it," the attempt so to identify it did not get far; for Dr. Willis pointedly told the Senate committee that all his work on the administration measure had been done by direction of the chairman of the House committee. As to this, the text of his statement appearing in the Senate hearings of October 24, 1913, was:

"MR. WILLIS: The bill presented by the committee was prepared under the direction of the chairman, Mr. Glass, and such work as I have done has been that of an adviser and investigator, coöperating at each stage and carrying out the directions that were conveyed to me by the chairman. Whatever authentic drafts there are of the different stages through which the bill passed, are in the possession, so far as I know, of Mr. Glass.

"SENATOR HITCHCOCK: Some of the members

of this committee want to get an idea of how this bill has developed.

“MR. WILLIS: The bill has been developed, as I have said, Senator, with the coöperation of the Committee on Banking and Currency, by a gradual process of study extending over about eighteen months; and as far as my relation to it is concerned it has been, as I have said, that of an adviser and investigator. I have done what I could to advance the work, doing what ordinarily falls to one acting in that capacity, carrying out the instructions of the chairman at each stage of the process, consulting with him and doing what I was instructed to do.”

Beyond this testimony, Dr. Willis temperately criticized some important features of the House bill from which he totally dissented. He had never wanted state bank membership of the federal reserve system, whereas I had insisted upon it; so the first tentative draft of the federal reserve bill presented a compromise provision by which state banks were given associate membership. In the next draft, this was changed to full stockholding membership. Dr. Willis thought, in view of this, that national bank privileges should be better hedged about in competition with state banks, and so told the Senate

committee. He also objected to the savings department for national banks in the House bill, which the Senate subsequently threw out. Likewise, he unsparingly opposed making the notes "obligations of the government," which was an economically sound objection; but this feature of the House bill was not altered because the issue had been thoroughly thrashed out with the President, who had assented to it. The committee expert offered certain other criticisms of a minor nature, which were regarded in some instances and in others disregarded. Knowing the problem from A to Z, he experienced not the least embarrassment under the fire of questions; but, as any intelligent person may discover by reading the hearings, the witness vindicated completely his right to speak by authority on the question of banking and currency reform. He made a valuable contribution to the Senate committee's store of knowledge and punctured the ghost story about the "Wall Street" origin of the administration currency bill.

After dreary repetitions by sixty-eight bankers and eight alleged experts, many of whom had been heard on the House side, the Senate hearings were terminated and committee consideration of the bill begun. There was not that unanimity which characterized the proceedings of the House committee. One reason of this

was that the Senate committee affected a non-partizan attitude that did not in fact exist. In short, while the Democratic members divided on nearly every important question, the Republicans did not. This almost insuperable difficulty was averted on the House side by having the Democrats adjust their differing views before calling the Republicans into consultation, precisely as Mr. Aldrich, five years before, had excluded the Democrats from conference until the Republicans had agreed on the Vreeland-Aldrich currency bill.

Day after day, press reports recorded that one or another change in the bill had been made in committee by two or three Democratic Senators uniting with the solid Republican vote. One day, two Democratic Senators joined five Republicans and, by 7 to 5, changed the structure of the bill radically by transforming the Federal Reserve Board into a central bank at Washington with \$300,000,000 of the total reserve funds apportioned to it for central banking purposes. The regional reserve banks were to be mere branches of the parent institution. Chairman Owen, of the Senate committee, was reported to be "greatly agitated over the trend of events, and vigorously protesting." He regarded this change as "providing the very essence of a central bank." Another day the same bi-

partizan combination, by the same vote, reduced the number of regional banks to 4; and then, as if fearful of the folly of this action, by a vote of 10 to 2 authorized the central board, in its discretion, to increase the number to 12. The morning papers announced with seeming authority that "the President last night avowed irrevocable disapproval of this action." Still another day witnessed a combination of three Democrats with the solid Republican strength of the committee for a central bank with 47 branches. And so the show proceeded, much to the enjoyment of those who wished for no legislation at all unless it involved the establishment of a central bank. Meanwhile, not a little irritation was created among staunch friends of real currency reform, as they noted the fact that the bi-partizan theory seemed to have caught the fancy of three central bank Democrats, but not that of a single Republican of the Senate committee. The Republicans voted pretty much the same way on nearly every division. This invited bitter condemnation from several of the few great Democratic newspapers, notably the New York *World*, which said:

"These men are enabling the opposition to play party politics with the currency bill. They are themselves playing personal politics with it.

Pledged with their party against a central bank, they are holding up this bill to gain the essence of a central bank, which would spell betrayal of their party and menace to the financial stability of the country. But for the obstruction of these men the bill, with desirable amendments, could long since have been reported to the Senate."

This comment reflected what speedily became the pronounced and bitterly expressed feeling among well-wishers of currency reform regardless of party connections. Nevertheless, Washington dispatches and the local papers fairly bristled with stories of dissension. "Money Split Wider," featured one paper. "Senators Determined to Ignore Wilson's Wishes," was another headline. "Central Bank Idea Predominant," said another. "Alarmed at Popularity of Vanderlip Plan," was the way a hostile New York paper put it. The President was getting mad through and through. So were many of his party associates in the Senate and in the House also, the latter having been held nominally in session while the Senate committee deliberated. House leaders issued public statements serving notice on the central bank adherents that they need expect not one whit of coöperation on that side for the Vanderlip flare-up or any

kindred scheme. The chairman of the House committee made public a letter written him months before by Mr. Vanderlip in which the latter had bitterly assailed the very things he was now professing to advocate; and demanded to know "if these things constituted 'unsound banking' in July, why do they not signify 'unsound banking' in November?" The White House more directly accepted the Vanderlip challenge by saying it was "now a question as to whether a controlling group of bankers or this administration shall write a currency bill."

Events passed in swift review. In a few days, it was announced in dispatches from Washington that the Eastern Senator who had coöperated with the bi-partizan group of the Senate committee had definitely broken from the combination; and a day later it was recorded by the newspapers that another of the three Democrats had visited the White House with Secretary McAdoo and come away convinced that the only way to get legislative action was to abandon all thought of a central bank, whether of the Vanderlip type or some other, and join in a concerted party effort for a regional reserve bank system. The remaining Democratic "insurgent" was never convinced or subdued; he continued to "insurge." But even with this repair of the party traces, the chairman of the Senate com-

mittee was not able to report the bill as agreed on; he reported it without recommendation to the Senate. This resulted in further delay and prolonged confusion, until the President could be won over to a party caucus proposal. On this point Mr. Wilson would not readily yield. At first he was disposed to assert vigorously his established aversion to "rule by caucus" and to put responsibility for failure of currency reform on those who appeared to be conspiring against it. Had he persisted there might have been no reform of the currency for years; and the war which burst eight months later would have caught the country unprepared for the frightful financial strain. "Right of way" is of no value to the autoist who gets killed asserting it; so the practical politicians finally convinced the President that there must be a caucus or an abandonment of all hope for legislation. He agreed to the caucus, which was euphoniously termed "a conference," and did the cleverest kind of work among the Senators in healing differences and imparting a new and militant spirit to the whole movement.

Just a brief space before this, for a bare instant, we get for the first and only time in this long eruptive period a glimpse of Colonel House as he flashes himself on the screen of that remarkable Diary of things imagined. Professor Seymour's

“unseen guardian angel” of the federal reserve bill, radiating peace on earth, plumed himself on trying to cure the contumacy of Senator Jim Reed! But his mesmeric wires were quickly grounded. A fair inference from the Diary itself is that the celestial pacificator got his wing feathers plucked before he could catch his second breath. President Wilson, of the earth earthy, had better success. In two frank talks he seemed to have won over the refractory Missourian, who thereafter went along with his party associates and was among those who made effective answer to Senator Root’s alarmist speech about “fiat money” and “the inflationary facilities” of the administration currency measure.

CHAPTER XII

VARIOUS EXTRAORDINARY OCCURRENCES

*The Senate Discussion—Mr. Root's Sensational Speech—
"Straining at Gnats and Swallowing Camels"—An
Extraordinary Paradox—Relentless Consolidationists*

THE Senate had on its calendar two currency bills, one reported by Senator Owen, chairman of the Banking and Currency Committee, without recommendation; and one reported by Senator Hitchcock, of Nebraska, representing another wing of the committee composed of himself and all the Republican members. A more or less extended discussion ensued, directed to the general question of currency reform and touching the major provisions of the contending measures on the Senate calendar. The so-called Hitchcock bill, supported by the Republican side, reflected the incongruous consolidationist and government operation view. The bill of the Owen section of the committee, being the House bill greatly modified, embodied the other view of decentralized bank reserves, with a centralized supervisory control. Many of the

speeches delivered were carefully prepared, with no expectation of affecting the question before the Senate, but strictly for home consumption. Not a few were exceedingly elaborate essays, embellished by dry-as-dust statistical tables calculated to impress the constituent who habitually gets his notions of greatness from the size of a speech rather than from its logical value.

On the other hand, some of the debate was spirited and forceful, while not a little of the discussion was given a purely partizan tinge. The memorable part of it was Senator Root's three-hour address and the answers to it by Senators Owen, Reed, and Williams. The New York Senator, invariably relied on to register the point of view peculiar to predominant financial circles, was characteristically didactic; so much so, indeed, that John Sharpe Williams's forensic satire was given full sweep in the running encounter. Mr. Root's vehement antagonism to the administration currency measure grew out of its alleged "inflationary" facilities and the "fiat" nature of the notes authorized to be issued. His spectacular attack was sweeping in its range; but the astute lawyer directed an excess of invective at the "government note" provision of the bill as the embodiment of all concentrated wickedness. This note was the citadel of "inflation."

Of course, the federal reserve note authorized was not, in substance, a "government" note nor a legal tender; but a bank note with a uselessly imposed government obligation that would not be reached in ten thousand years. However, the theme was temptingly susceptible to political exploitation. Mr. Bryan, then in the Cabinet, with his long string of financial vagaries, could be identified with this purely textual blemish; and how easy it was again to excite the East with "sound money" for a tocsin! Mr. Root's speech bristled with the phrase. "This bill," he cried, "proposes to put in pawn the credit of the United States. This is financial heresy, twice repudiated by the American people." Again and again he predicted certain calamity. We were setting our steps "in the pathway that brought the mighty power of Rome to its fall." And "long before we wake up from our dreams of prosperity through an inflated currency," our supply of gold, which alone could keep us from catastrophe, would have vanished, "and no rate of interest will tempt it" to return.

The country was assured by the newspaper accounts of Mr. Root's speech that "his incisive presentation of his objections to the administration currency bill and his predictions of disaster to ensue from its adoption produced something very much akin to a sensation in the

Senate.” Mr. Gallinger, dean of the Senate and Republican floor leader, issued to the press a formal endorsement of the “remarkable address, brilliant, interesting, unanswerable,” and added: “Unless the Republican party nominates Senator Root as its candidate for the Presidency of the United States, it will miss the greatest opportunity that has ever presented itself to that party.”

The sensation was not of a lasting description. The dénouement was of a vastly different kind from that expected. Mr. Root was not nominated for the Presidency, nor did the Senate do one earthly thing to avert the possibilities of inflation imputed to the administration bill beyond a slight increase in the gold reserve, with a graduated deficiency tax, never applied since the system was inaugurated. On the contrary, and without specific protest from Mr. Root, the Senate tremendously accentuated the alleged “inflationary” features of the measure, if it did not make inevitable the greatest imaginable amount of inflation. At one stroke, in authorizing federal reserve notes to be counted by member banks as reserve, it made possible inflation to the incredible amount of six billions of dollars, as computed by competent actuaries. By authorizing bank acceptances on domestic transactions, thus creating contingent liabilities of

great volume with not one dollar of gold cover, it not only made certain credit expansion beyond approximation, but would have introduced an untried and exceedingly dangerous banking practice. By a reduction of reserve requirements and by other changes, the Senate made note-and-credit expansion enormously more probable than did the administration bill so bitterly assailed by Mr. Root. Not a word as to this was uttered in all this drastic talk about the "menace of inflation." These particular Senate amendments originated right in the financial centres and were ceaselessly pressed by notable Eastern bankers.

The speech of the New York Senator did not go unanswered. It drew pungent comment from John Sharpe Williams and spirited replies from Owen and Reed in the Senate. When the conference report was presented in the House, the retort was as pointed and combative as the amenities of debate would permit.¹ It was deplored that a statesman of Mr. Root's international reputation should have seized upon a politician's catch phrase and denounced as "fiat" the soundest note ever issued. There is not an element of "fiatism" about a federal re-

¹See in the appendix to this volume speech delivered by me in the House of Representatives on December 22, 1913, explaining the conference report and defending the House currency bill against adverse criticism.

serve note. A sufficient confutation of the suggestion may be found in the fact that, after the most crucial test to which any currency was ever subjected, the considered banking judgment of the nation, as expressed by the Federal Reserve Board and its Advisory Council of eminent bankers, prevailed with Congress to reduce by 33.3 per cent. the very commercial security that was behind the federal reserve note at the time Mr. Root made his astonishing characterization of it. None of the disasters prophesied by this distinguished statesman have yet broken upon the country as a result of the enactment of federal reserve legislation. The regional banks have the greatest reserve of gold ever assembled outside the bowels of the earth. Through their agencies was managed the most inconceivable flotation of war loans in the history of the universe; and to-day the prosperity of the nation seems inseparably associated with the maintenance and wise administration of the system.

As heretofore intimated, the debate in the Senate, if seriously intended to affect the decisions of the body on the reserve bank bill, did not appreciably succeed in doing it. A rather bitter partizan aspect was given the discussion by Senator Bristow. Among other sharp things said by the Kansas Senator was an un-

mistakable accusation that certain other Senators, in conjunction with Secretary McAdoo, were "attempting to relieve Congress of some of the more important details of currency legislation by midnight conferences at the Raleigh Hotel." He quoted a Washington dispatch to a New York paper as saying that it had already been "decided at these conferences to eliminate from the bill the proposed guaranty of bank deposits." Senator Owen explicitly denied that anything of the kind had occurred; and, as a matter of fact, the Senate, in which this provision originated, did not eliminate it. It was expunged by the House conferees.

As further denoting the tense party spirit which the Senate discussion had fomented, it is pertinent to give a rather astonishing circumstance. Senator LaFollette, to all the East anathema maranatha, presented an amendment to the currency bill which, if adopted, would have figuratively sent the federal reserve banks to the almshouse for their managing directors. It read:

"No member of the Federal Reserve Board and no director of a Federal Reserve Bank and no officer or director of any member bank shall be an officer, director or stockholder of any other bank, trust company or insurance company."

The proposed amendment was overwhelmingly beaten, of course; but to the amazement of the Senate it received the support of Senators Root, Penrose, and Gallinger against the opposing votes of every other member of the Senate from the East! It may be wondered if, in that three-hour philippic, the great New Yorker had not convinced himself, and Senators Penrose and Gallinger also, that the opposing political party was so incapable of originating financial legislation which could merit the respect of sane people that any alteration, howsoever evil, would be an improvement. On no other theory, as I conceive it, could there be any explanation of their attitude. In the issue of the legislation one class of directors of federal reserve banks is supposed to be directly affiliated with other banks; another class is selected by and may be stockholders of member banks, and only the three directors appointed by the Federal Reserve Board are specifically detached from pecuniary interest in banks. Even these may be stockholders of trust and insurance companies. Yet here was a proposition, supported in this wise, to commit the great regional banks of the country to the exclusive direction of persons having no interest in banks nor presumptively any knowledge of banking processes! It was to prohibit any officer or director of any of the ten thousand

member banks of the federal reserve system to own a share of stock in any other bank or any trust or insurance company! It was to render ineligible for service 5,000,000 of the thriftiest citizens of the republic!

The ablest, as he was the most fearless, spokesman of the bankers of America had, a few days before, in the Senate Banking Committee, fiercely assailed the House currency bill for its failure to commit the management of the regional banks exclusively to bankers. "The bill," he exclaimed, "is repulsive in its provisions for control. It is a force bill the like of which is not on the books of any nation. It discourages bankers by telling them they are a class of citizens no longer entitled to representation!" And there in the Senate, a few days after, the greatest spokesman in America for vested rights, whose life had been spent in the shadow of bank structures, was voting to exclude every stockholder of a member bank of the federal reserve system, every stockholder of a trust or insurance company, from participation in the management of these regional institutions, every dollar of the capital of which was supplied by the very banks and persons thus proscribed! Is there to be found anywhere in the pages of controversial literature anything comparable to this paradox? Certainly, it was a curious episode of federal reserve legislation.

While the general debate was proceeding in the Senate, addressed to the administration or House bill and the two bills reported respectively by Mr. Owen and Mr. Hitchcock as substitutes, the Democratic party caucus was deliberating over amendments to the House bill prepared by a committee composed of Senators Owen, Shafrath, Pomerene, and Hollis. Meanwhile, at this particular stage, another outside interference was projected. Certain radical proposals were presented which were saturated with the same plutological poison as that of the scheme which came so near wrecking federal reserve legislation in June. This new plan was presented to the President and his approval sought. Mr. Wilson promptly referred the proposal to me for examination and submission to such of my House colleagues as might be convenient for consultation. We were never enlightened as to the origin of the scheme, but after a thorough scrutiny of it by Bulkley, Phelan, Korbly, and myself, with the expert aid of Dr. Willis, the President was told of its dangerous nature and of the total unlikelihood of its acceptance by the House. President Wilson had instinctively regarded this proposed departure from our basic lines as an ill-considered adventure, and Secretary McAdoo agreed with him; and, although both of them urged that the suggested amend-

ments be dismissed, two of them in modified form were incorporated in the Senate bill, only to be thrown out in conference.

Whether there were any incidents of the Senate party caucus worthy to be recorded, I am unable to tell. Although Senator Reed expressed a preference for open sessions because, he insisted, the papers had falsely put him in a position of capricious antagonism to the administration, the conference was behind closed doors. If there were sharp differences of view or any manifestations of acrimony, such as were exhibited so repeatedly in the House caucus, the newspapers gave no account of them. On the contrary, subsequent proceedings in the Senate appeared to indicate that the party conference had reconciled all differences among Democratic Senators, for they resisted effectively every attempt of the opposition to alter the bill as agreed on in caucus.

Singularly enough, the fight in the Senate against the administration measure, as amended in the party conference, was not led by a Republican, but by Senator Hitchcock of Nebraska, a Democrat, who declined to attend the party conference. Also, stranger still, the opposition of Mr. Hitchcock was not inspired by the proverbial "Nebraska idea," but, conversely, was prompted by his advocacy of centralization in

banking and the economic wisdom of bank-note issues as against government-note issues. Hitchcock surely exhibited the courage of his convictions; for he was the solitary Democrat who voted invariably with the opposite side. Stated differently, it might be said that the Republicans voted solidly for every amendment Mr. Hitchcock offered, while the Democrats, with the single exception noted, voted solidly against them. The Nebraska Senator had little toleration for the House bill. In eleven vital features he sought to alter its provisions. He opposed its proposed composition of the Federal Reserve Board; he was for four as against twelve banks; he was for insuring with government funds individual bank deposits; he advocated making the maturity of rediscountable commercial paper 180 days instead of 90 days; he advocated a progressive rediscount rate; he wanted to raise the gold cover for notes to 45 per cent.; he was for increasing the capital stock requirement of the regional banks; he favoured having the government, and not bankers, manage the regional banks; he would have required the banks to underwrite the capital stock of the regional banks and then compelled these banks to offer the stock to public subscription; he was for an appreciable change in the reserve requirements of the House bill; and, finally, he offered the

complete bill which he and six Republican members of the banking committee had reported as a substitute for the House bill, as amended by the Democratic caucus. As stated, the solid Republican vote was cast for every one of these Hitchcock amendments, and the solid Democratic vote against. Every one was rejected; but, subsequently, the Senate incorporated a deposit insurance provision in the bill, which the House conferees afterward eliminated.

While the Senate conference was deliberating, and even after it had presented a perfected bill to the Senate, various influential bankers, who had taken an exceptional interest in the reserve bank problem, came to Washington in hope and expectation of being able to affect the situation as they might desire. Although the bill had long ago passed out of the jurisdiction of the House, some of these bankers insisted on discussing their proposals with me and several of my committee associates. Mr. Paul M. Warburg, the accomplished New York banker to whom several references have been made in this chronicle, was notably among these. Mr. Warburg exhibited a sort of religious zeal for the ideas he entertained on the subject of banking and currency reform. Moreover, he presented them with a force of reasoning and an ingenuity of expression that were not exceeded by his earnestness. My rec-

ollection is confirmed by my letter files when I say he mailed me every one of his proposed amendments to the House bill as he sent them to the Senate committee, besides keeping me apprised of his talks on the Senate side. Mr. Warburg succeeded in impressing his views on the Senate committee and got some of them incorporated in the amended bill. He had a provision inserted authorizing the use of federal reserve notes in the reserves of member banks; also a provision for universal domestic acceptances; he got the reserve requirements changed so as to increase the loaning capacity of the regional banks, and vainly sought to embody a "piping" scheme, whereby we should have three reserve centres with a regional bank at each.

While I had, as I still have, a high regard for Mr. Warburg's genius and like him immensely, I frankly disagreed with these things, done at his insistence; and the House conferees had them expunged from the bill in conference. Mr. Warburg also suggested, and successfully argued against Sir George Paish, the English economist whom Senators seemed to be consulting, the incorporation of the one-year gold-note feature in the bond-refunding provision of the act. This was allowed to remain. These conferences and this correspondence with the able international banker afforded a species of mental calis-

thenics which improved our capacity to deal with the problem and from which all of us derived genuine enjoyment. But for Professor Seligman and some others to be repeatedly asserting that Mr. Warburg wrote the Federal Reserve Act is not only to infringe the copyright of Professor Seymour and Colonel House, but is to exhibit an amusing ignorance of the thing they themselves assume to talk about. If professors of history and other things at great universities do not quit dreaming dreams instead of searching for the truth, Professor Shotwell will not live to realize his recently expressed expectation of seeing History abreast of Science in the final accounting of this wonderful period of the world's existence.

CHAPTER XIII

THE BANK BILL IN CONFERENCE

*A Unique Situation—Puzzled About "Two Outwitting Six"
—Senators in a Rage—Mr. Lodge Goes on Record and
Prophesies—The "Fiat Money" Clatter*

THE administration currency bill, passed by the House and in many particulars altered by the Democratic Senate caucus, was passed by the Senate on December 19, 1913, by 54 to 34, and was immediately sent to conference. But three Republicans, Weeks, Norris, and Sterling, voted for it. No Democrat voted against it. As important legislative measures in sharp disagreement between the two branches of Congress are, in conference, frequently reshaped in their vital features, there was intense interest manifested in the personnel of the conference committee. The agrarians and the inflationists of the House were well pleased with the bill as it passed the Senate, since it was readily seen that the possibilities of credit expansion under its terms were enormous. The saner element, apprehending disaster from these inflationary provisions, were determined to cure them. The

same "corn-tassel" contingent that erupted so violently in the party caucus and was badly routed sought to have the House concur in the Senate amendments. Briefly, the chairman of the House Banking Committee pointed out the folly of such a suggestion, and Mr. Hayes, ranking Republican member, declared acceptance of the Senate amendments "would mean the authorization of dangerous and destructive inflation." Oscar Underwood also urged that the bill be sent to conference, which was done by an overwhelming vote.

Defeated at this point, the expansionists fought for the appointment of nine House conferees to correspond with the number named by the Senate. Thus it was hoped to override the known conservatism of the three House members who would be named under customary procedure. This move also failed, and the Speaker, plainly impatient at these tactics, quickly named Messrs. Glass, Korbly, and Hayes as House conferees, with instructions to accept the Senate amendment extending the maturity of agricultural paper eligible for rediscount to meet the seasonal requirements of farmers.

The Senate had named nine conferees—an unusual, if not unprecedented, number. This came about by reason of a singular situation. As the designation of nine conferees on the

House side might have nullified the things for which the House had voted, curiously enough, the naming of three Senate conferees only might have prevented an agreement altogether, since Mr. Hitchcock, the second ranking Democrat on the Senate Banking Committee, had consistently voted with the Republicans on the main questions in issue; and, if named as a conferee, he and Mr. Nelson, the Republican conferee, could have controlled the Senate vote in conference. It was also said (for none of which I vouch) that, since it seemed certain a legislative miracle was about to be performed by the setting up of a scientific banking and currency system, none of the Senate members of the banking committee was averse to having a lasting part in it. Whatever the reason, the Senate named on the conference committee every Democratic member of its banking committee except Mr. Hitchcock. These were Owen, Reed, Pomerene, Shafroth, O'Gorman, and Hollis. The Republican conferees were Bristow, Nelson, and Crawford.

Much bitterness was occasioned by the decision of the Senate Democratic conferees not to admit their Republican associates to conference until the Democrats had adjusted their own differences. Korbly and I were perfectly willing to have Hayes, the House Republican, sit

with us, because he was fair and had good knowledge of the problem; but Democratic Senators strongly objected to bringing in Senator Bristow, who appeared to have been violent and personally distasteful in the Senate debates. Hence the Republican conferees were for the time excluded.

The conference of the six Democratic Senators and the two House members was amicable, but decidedly earnest. The sessions lasted far into the nights. The discussions were warm, but never unfriendly; and it is worth while to remark that, although Senator Reed, of Missouri, had persistently been featured in the papers as querulous and insurgent, he was throughout the conference useful and reasonable. His first superficial impressions of the administration measure seemed to have given way to a considerate examination of its provisions as they were explained and defended by the House conferees; and there was none of the wrangling or the asperity so freely predicted and fervently wished for by the enemies of currency reform. Recalling clearly the scenes and incidents of the conference as if it were yesterday, I might confidently say that every member of it at every session of it made a worth-while contribution to the fine result. On the last night, we worked until ten minutes past 4 A. M., the final item of

agreement being to retain the Comptroller of the Currency as an ex-officio member of the Federal Reserve Board.

Perhaps it will never be entirely agreed as to whether the Senate or House conferees dominated; but I have preserved among the innumerable bits of data the memorandum made by Korbly and me of the things we would insist on and the points we would yield, and it may decently be said that the House, which voted 298 to 60 for the conference report, was not better pleased with it than the two House conferees who signed it. The newspapers of the day reported that "Majority Leader Underwood was given a great ovation when he rose in the House at the conclusion of the debate and congratulated the Banking and Currency Committee 'on accomplishing a result that many Congresses and many committees have attempted in twenty years and failed.'" But Underwood omitted to reveal the secret recently disclosed by Professor Seymour when the latter told the public his supernatural hero of currency reform had both Houses of Congress and the conference room encircled by pigwidgeins, all the while whispering to us exactly what to do.

In the Senate, the conference report had a stormy time of it. The Senate conferees were subjected to biting criticism from both sides of

the chamber for "capitulating to the House." The fine old Viking from Minnesota, Knute Nelson, had been hurt to the quick by reason of his exclusion from the conference preliminaries. He was in an indignant mood. "When the conference met," he explained to the Senate, "the Republicans were not permitted to be present. I want to acquit the members of the House; I want to do full justice to them. The conference committee of the House, headed by Mr. Glass, took their Republican associate with them and were willing to confer with the Republican conferees of the Senate. Objection came from the six Democratic Senate conferees. They saw fit to exclude us. The conference was pure mummary; yet in the face of these bald facts the chairman of the Senate committee has the audacity to come here and say that we were given an opportunity!"

It was in vain that Senator Owen and others endeavoured to justify the action of the Democratic Senators by pointing to exactly the same thing done by the Republicans on similar occasions, notably when the Vreeland-Aldrich currency bill was passed so swiftly, without even being read from the desk. Senator Bristow appeared infuriated. He lashed about him regardless, sneering at the President as possibly capable of "some spasm of virtue" and bluntly

accusing Senator Owen of having excluded the Republican conferees "for fear they would take out of the bill some of his pet measures," designed to benefit him pecuniarily as a banker. Mr. Owen did not mince words in his retort, characterizing the Bristow statement as "not only false, but ridiculous; and the Senator knows it is false." Owen sharply added: "We excluded the Kansas Senator because we didn't want a debating society, but a conference." Mr. Bristow violently complained of the expurgation of the Senate provision for guaranty of bank deposits which had been advocated by every Republican Senator from the West; nor was he appeased when Senator Reed explained that "this was practically a last-ditch proposition on the part of the Senate. House conferees absolutely refused to yield, and we had the choice of delaying or defeating the entire bill." Accusing the Senate conferees of surrendering to the House, Bristow exclaimed: "You are providing a centralization of power that Alexander Hamilton would have blushed with shame to suggest," whereupon Senator Ham Lewis, alluding to Senators Root, Penrose, and Gallinger as "the Mephistophelian trinity," charged that Mr. Bristow had obediently followed their leadership. "The Senator from Kansas," he taunted, "thinks a great machine called cen-

tralization is on the way to disturb the country. Yet the Senator from Kansas did not hesitate to propose to the Senate the creation of a single central bank, with a single head, with a single body, that could, with all the force of ancient and modern power, grip the Republic in the tyranny of centralism."

And thus the controversy raged for hours, both sides upbraiding the Senate conferees for yielding to the House. On this point, Senator Thomas, of Colorado, especially deplored the elimination by the conferees of certain Senate amendments. "I cannot escape the conviction," he said, "that two men, members of the other body, at the other end of this building, by their successful insistence upon having their own way have become the ultimate authors of this legislation. . . . We are now face to face with the indubitable fact that two men, members of the House of Representatives, have dictated the character and elements of this bill, to whose insistence the six representatives of this body finally surrendered. . . . And so this great measure is practically the result of the insistence of two determined men."

Senator Ashurst, of Arizona, also complained on this score, saying: "The Senator from Minnesota [Mr. Clapp] the other evening said he would like to draw a picture of three controlling

six; but he might have drawn a picture of two controlling six, because I observe that the conference report is signed by two conferees on the part of the House of Representatives and six on the part of the Senate."

Senator Reed, apparently tired of this irritating reiteration, brought the Senate back to the substantial situation with a brief but convincing defense of the currency bill as reported. Said he: "The truth of the matter is that this bill is intended to strengthen our banking system. The truth is the bill will probably benefit the banks by removing from them the great menace of panics and constriction. By removing this menace from the banks we remove it from the country. The panic first strikes the bank, but within the next succeeding moment strikes the depositor of the bank; it strikes the borrower from the bank; it strikes the business of the country; it goes down and strikes the man who digs in the trench and who toils in the mine. A sound financial system is essential to a sound business system, and a sound business system is essential to a sound industrial system, and all are essential to the happiness of a people."

Thereupon, the conference report on the currency bill was adopted by a vote of 43 to 25, the Republicans, except Senators Weeks, Norris, and Jones, persisting in their opposition. Before

the vote was ordered, Senator Weeks, of Massachusetts, presented a letter from his colleague, explaining the latter's antagonism to the measure. It read, in part:

New York,
December 17, 1913.

MY DEAR SENATOR WEEKS:

. . . Throughout my public life I have supported all measures designed to take the government out of the banking business. . . . This bill puts the government into the banking business as never before in our history, and makes, as I understand it, all notes government notes when they should be bank notes.

The powers vested in the federal board seem to me highly dangerous, especially where there is political control of the board. I should be sorry to hold stock in a bank subject to such domination. The bill as it stands seems to me to open the way to a vast inflation of the currency. There is no necessity of dwelling upon this point after the remarkable and most powerful argument of the senior Senator from New York. I can be content here to follow the example of the English candidate for Parliament who thought it enough "to say ditto to Mr. Burke." I will merely add that I do not like to think that any law can be passed which

will make it possible to submerge the gold standard in a flood of irredeemable paper currency.

I had hoped to support this bill, but I cannot vote for it as it stands, because it seems to me to contain features and to rest upon principles in the highest degree menacing to our prosperity, to stability in business, and to the general welfare of the people of the United States.

Very sincerely yours,
HENRY CABOT LODGE.

Bacon delighted to speak of intellectual watch-towers, from the vantage ground of which one might get a glimpse of things to be. Obviously, the sage of Nahant was not on his promontory when he wrote this letter to his associate in the Senate. These regional banks, from net earnings, paid a franchise tax of \$60,000,000 to the government for a single year—a sum nearly as great as that paid by all the national banks in the United States put together for a period of twenty years theretofore. These regional banks avert rather than invite disaster; they stabilize rather than disturb business; they foster rather than menace prosperity. And as for “putting the government into the banking business,” it was inexplicable to me, as it still is, that an indictment of this nature should have been levelled

at the Federal Reserve Act by those who voted for the proposed substitute! The reserve act commits the immediate management of the regional banks to the bankers who own them. The substitute proposed, bearing the seal of Republican authority and supported by Messrs. Root, Lodge, Penrose, Gallinger, and the rest, would have put these banks in control of the federal government, owning not one dollar of proprietary interest in them! Could inconsistency present itself in plainer guise? To "ditto" Edmund Burke was one thing. To "ditto" Elihu Root in a partizan frenzy was different. How much better for the fame of Senator Lodge it might have been had he deigned to examine the bill which he assumed to condemn! He would have discovered that not one dollar of the currency authorized to be issued was "unredeemable." He would have learned that redemption on demand in gold was expressly provided for every note. He could, in this circumstance, have clearly recalled by contrast that the only "fiat" paper money ever issued in the history of the Republic was that issued under a party administration of Mr. Lodge's own faith and, contrary to the teaching of Hamilton and Gallatin, validated by a "readjustment" of the Supreme Court of the United States. With this knowledge obtained and this revival of

economic memories, it is inconceivable that the senior Senator from Massachusetts would have been eager to "ditto" Mr. Root or to have entered upon the permanent records of the Senate a comment so at variance with the facts and a prophecy so completely to be contravened by events. Fairness to Senator Lodge requires the statement that he later reversed himself; and, not long before his last illness, he personally told the present writer that he considered the reserve act "a great legislative accomplishment and an indispensable service to the banking community of America."

There is printed as Appendix A to this narrative the brief address made by me in the House of Representatives on December 22, 1913, concisely explaining the changes made in the banking and currency bill by the Conference Committee to reconcile the disagreeing votes of the two Houses of Congress. In this speech I also responded sharply to certain bitter assaults made in the Senate and elsewhere on various provisions of the House bill. As Appendix B, The Federal Reserve Act, as amended to date, is printed for ready reference by any reader of this chronicle who may be especially interested in federal reserve matters.

CHAPTER XIV

THE MIRACLE ACCOMPLISHED

*The Currency Bill Approved—"A Constitution of Peace"—
An Interesting Ceremony at the White House—A
Christmas Gift to American Business*

FOR nearly ten days, President Wilson's luggage had been packed for Pass Christian, Mississippi, where he expected to spend the holidays. As soon as the currency bill was engrossed and signed by the Speaker of the House and the Vice President it was sent to the White House for presidential approval. There all arrangements had been made for a brief but interesting ceremonial. Those who were most intimately identified with the legislation, together with quite a company of guests, assembled in the Executive offices on the evening of December 23d to see the President attach his signature to the Federal Reserve Act, which revolutionized the reserve banking and currency system of the United States. The thing which had been vainly discussed and intermittently attempted for twenty years had finally been accomplished!

The newspapers of the country featured the story; but concurrently the metropolitan press gave hesitating editorial comment on the event. Their Washington correspondents, well apprised of the almost insuperable difficulties which had been surmounted and the exact nature of the prolonged fight, had a keener appreciation of the achievement than the editorial writers; their stories of the event were full and, in some instances, graphic. One of the great dailies in New York carried three columns about the reserve provisions alone of the bill, supplied by Representative Bulkley, who had been put by me in charge of that feature of the measure and had, with the expert assistance of Dr. Willis, specialized in reserve computations. Very likely the cautious editorial comment of the metropolitan press was due to the fact that, with certain notable exceptions, the public journals at the financial centres had been hostile to the legislation, and it was not to be expected that they would be eager to praise at once a thing they had scarcely ceased to condemn.

President Wilson, surrounded by Cabinet ministers, Treasury officials, the Vice President, the Speaker of the House, Senators, and Representatives of both parties, members of his family, White House officials, and other invited guests, was in high spirits, as anyone may note

from a glance at the accounts of the event which were wired by the resident correspondents. Naturally, these differed inappreciably in detail, the appended story sent by the representative of the *New York Sun* being fairly typical:

“*Washington, Dec. 23.*—President Wilson signed the Glass-Owen banking and currency bill at one minute after six o’clock to-night in the presence of a crowd that thronged the Executive offices. Mr. Wilson was in a happy frame of mind. The occasion marked a victory for the President, who had worked hard for seven months to put the bill through the two Houses of Congress.

“It also signalized the fulfilment of the second principal pledge of the platform upon which Mr. Wilson ran as a candidate for the Presidency.

“In a speech that he delivered after attaching his signature to the bill, President Wilson proclaimed the law as a ‘constitution of peace’ for the business interests of the United States. He expressed pleasure ‘in completing a work which, I think, will be of lasting benefit to the business of the country.’

“While the President did not say so in actual words, he made it plain that it was his belief that the new law would quicken the activities of trade and commerce.

"Mr. Wilson said he had been surprised at the 'sudden acceptance' of the measure by public opinion everywhere. Business men, he said, had opened their eyes to find in the measure, which they supposed to be hostile, a serviceable friend.

"After the guests had assembled, and the President was about to take his seat at his desk, he noted that Chairman Glass of the House committee was not in sight. Mr. Glass had taken an inconspicuous position behind the crowd at the other end of the room from the President.

"The President invited him to take a position beside his desk with Senator Owen, the chairman of the Senate committee. As the Virginia Representative came forward, the President shook hands with him warmly. This was the signal for a round of hand-clapping.

"As the President sat down at his desk he said:

"'I must do the deed first and perhaps I will have something to say afterward.'

"In the signing of the bill the President used four gold pens. With the first he wrote 'Approved. 23 Dec. 1913.' With the second he wrote 'Wood,' and with the third 'row,' and with the last 'Wilson.'

"The first pen was presented to Mr. Glass, the second to Senator Owen, and the third to Secretary McAdoo. The fourth was reserved for

Senator Chilton of West Virginia, who had sent it to the White House with a request that it be used in the signing of the bill.

“‘The deed,’ having been accomplished, the President arose and addressed his audience. He was interrupted by applause as he referred to the new law as a ‘constitution of peace.’ When the President concluded he was again applauded and congratulated on the consummation of the work. An informal reception followed.”

The President’s speech was brief, as it was hurried. Among other things he said:

“I need not tell you that I feel a very deep gratification at being able to sign this bill, and I feel that I ought to express very heartily the admiration I have for the men who have made it possible for me to sign it.

“There have been currents and counter currents, but the stream has moved forward. I think that we owe special admiration to the patience and the leadership and the skill and the force of the chairmen of the two committees, and behind them have stood the committees themselves exercising a degree of scrutiny and of careful thought in this matter which undoubtedly has redounded to the benefit of the bill itself. . . .

“It is a matter of real gratification to me that in the case of this bill there should have been so considerable number of Republican votes cast for it. All great measures under our system of government are of necessity party measures, for the party of the majority is responsible for their origination and their passage; but this cannot be called a partizan measure. It has been relieved of all intimation of that sort by the cordial co-operation of the men on the other side of the two houses who have voted with us and have given very substantial reasons and very intelligent reasons for acting with us. So that I think we can go home with the feeling that we are in better spirits for public service than we were even when we convened in April.

“Men are no longer resisting the conclusion which the nation has arrived at as to the necessity of readjustment of its business. Business men of all sorts are showing their willingness to come into this arrangement, which I venture to characterize as the constitution of peace. So that by common counsel and by the accumulating force of coöperation we are going to seek more and more to serve the country.

“I have been surprised at the sudden acceptance of this measure by public opinion everywhere. I say ‘surprised’ because it seems as if it had suddenly become obvious to men who had

looked at it with too critical an eye that it was really meant in their interest. They have opened their eyes to see a thing, which they had supposed to be hostile, to be friendly and serviceable—exactly what we intended it to be and what we shall intend all our legislation to be.

“The men who have fought for this measure have fought nobody. They have simply fought for those accommodations which are going to secure us in prosperity and in peace.

“It is in this spirit, therefore, that we rejoice together to-night, and I cannot say with what deep emotions of gratitude I feel that I have had a part in completing a work which I think will be of lasting benefit to the business of the country.”

Immediately after approving the Federal Reserve Act, the President boarded the train for Pass Christian, whence he sent this message of well-merited applause to his Secretary of the Treasury:

Pass Christian, Miss.,
Dec. 25, 1913.

W. C. McAdoo,
Washington, D. C.

We all unite in sending you warmest Christmas greetings, and I want to add to these greetings my expression of sincere gratitude and admira-

tion for the work you have done in connection with the currency bill. I do not know what I should have done without your constant and watchful efforts in this great piece of business.

WOODROW WILSON.

To Senator Owen, chairman of the Senate Banking and Currency Committee, the President wrote this note:

WHITE HOUSE,
December 23, 1913.

MY DEAR SENATOR:

Now that the fight has come to a successful issue, may I not extend to you my most sincere and heartfelt congratulations and also tell you how sincerely I admire the way in which you have conducted a very difficult and trying piece of business. The whole country owes you a debt of gratitude and admiration. It has been a pleasure to have been associated with you in so great a piece of constructive legislation.

Cordially,
WOODROW WILSON.

HON. R. L. OWEN,
United States Senate.

The President also sent the appended note to the chairman of the Banking and Currency Committee of the House of Representatives:

THE WHITE HOUSE
WASHINGTON

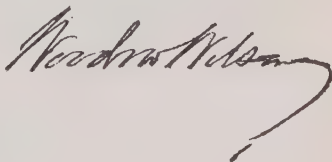
December 23, 1913

My dear Mr. Glass:

May I not express my admiration for the way in which you have carried the fight for the currency bill to an extraordinarily successful issue. I hope and believe that the whole country appreciates the work you have done at something like its real value and I rejoice that you have so established yourself in its confidence.

With sincere admiration,

Cordially yours,

A handwritten signature in dark ink, reading "Woodrow Wilson". The signature is written in a cursive style with a long, sweeping flourish that extends from the end of the name.

Hon. Carter Glass,
House of Representatives.

Two weeks later, after the momentary excitement of the unusual occasion had subsided, the Secretary of the Treasury dispatched this letter to the chairman of the Banking and Currency Committee of the House:



THE SECRETARY OF THE TREASURY
WASHINGTON

January 12, 1914.

My dear Glass:

Now that the Federal Reserve Act is law I write again to congratulate you on the splendid and effective part you had in the formulation, construction and passage of it. I believe no one can speak with greater knowledge and authority of the splendid part you have had in this notable piece of business. In the concluding stages of the fight and in the work of the conferees you exhibited in a rare degree those qualities of intelligence and statesmanship which brought the measure to successful fruition. You have made for yourself enduring fame, and no one rejoices more in your deserved success nor wishes you a longer life of continued usefulness to your country and to your friends than,

Yours faithfully and sincerely,

A handwritten signature in dark ink, appearing to read "W. C. Cadoe", written in a cursive style.

Hon. Carter Glass,
* House of Representatives,

There were felicitations and expressions of satisfaction from every national group which had evinced a consistent interest in the legislation. As representing the bankers of the country, wires and letters came from such outstanding men as A. Barton Hepburn, Sol. Wexler, James Speyer, Paul M. Warburg, James A. Forgan, and many others. Among the hundreds of messages from business men of every degree, particularly hearty congratulations came from such prominent figures in commercial life as John Wanamaker, John V. Farwell, Edward A. Filene, Charles R. Crane, Irving T. Bush, Wallace Simmons, and others of this rank. The National Association of Credit Men, the National Citizens' League, Chambers of Commerce, Boards of Trade, manufacturers' associations, notable educators, professional men of every type, helped to swell the chorus of rejoicing. Of these I treasure a volume greater, perhaps, than all that has been set forth in this narrative; and if anything could compensate for the twenty-two months of nervous strain and anxiety which had been endured by those directly charged with responsibility for banking and currency reform, certainly these generous manifestations of approval afforded an ample requital.

At the White House there were received countless messages; for it was in the leadership

of the President that banking and currency reform had its surest chance of eventual triumph. Not for an instant did Mr. Wilson ever turn aside from the task or hesitate to apply every resource of intellectual strength and executive power. He dreamed no dreams nor hearkened to any "wizards that peep and that mutter." From beginning to end he stood with both feet on the earth, beguiled by no plea that could abate his purpose, alarmed at no threat that could affect his prestige, deceived by none of the stratagems employed to postpone or render hopeless the day of deliverance. Without his knowledge of the problem, deprived of his spirit and direction, nothing of a lasting description could have been achieved. It is because no living person, as I believe, knows and appreciates this as I do, that this chronicle is written.

CHAPTER XV

A MYTH DESTROYED

*The "Intellectualists" Change Front—First Oppose, Then
Claim Paternity of Federal Reserve Bill—Mr. Aldrich's
Fierce Assault on the Measure*

WHILE the federal reserve bill was pending, it was mercilessly condemned in detail by certain interests. Where there was any praise in these quarters, it was faint enough to damn. This hostile criticism reflected not alone the attitude of bankers, as the class which imagined that it was chiefly affected by the proposed readjustment; but it voiced the disapprobation of those business groups which are most readily impressed by banking thought. This was not surprising, since the phenomenon was and is of frequent recurrence. A very noteworthy exception was found among the National Association of Credit Men, whose members thought intelligently on the subject and understood the elements of the problem. These credit men were not only tolerant, but extremely helpful throughout the entire period of discussion.

It was astonishing, however, to find so many philosophers in economics among the critics and obstructionists. It was even more amusing to note the complete about-face of these a little later. After the currency measure was enacted into law and the system had proved itself under the searching test of a world war, some of the professors who had assailed the bill before public assemblages were among the first to set up claims of paternity for themselves or for their friends. One of these gentlemen who sharply criticized the administration measure before the New York Academy of Political Science in October, 1913, precipitately tried, in 1914, to seize the copyright, as it were, for a banker friend who had been consistently antagonistic to some of the very fundamental provisions of the bill to the moment of its approval by the President. The banker was a very fine, as he was also a very able, man; but he was far from being the author of the Federal Reserve Act.

Dr. H. Parker Willis, expert adviser to the Banking and Currency Committee of the House of Representatives, pointedly and accurately states in his elaborate documentary history of the federal reserve system that the federal reserve bill was not "a copy or derivative of any other bill" privately prepared by currency experts and submitted to the committee. The name of such

bills was Legion and the committee graveyard could scarcely hold the output. Not a small part was, in fact, plagiarism of the earlier drafts of the federal reserve bill. Dr. Willis thinks the federal reserve bill was the "digested product of elaborate and careful study of European banking experience adapted to American necessities." A different, if not a preferable, way of stating it would be to say that the measure was the digested product of an agonizing review of American banking experience and a thoroughly scientific study of practical methods of readjustment. Thus the committee expert and I reach the same destination in inverse order. We agree exactly in saying the Federal Reserve Act has no relationship to the Aldrich plan beyond a common use in some cases of indispensable banking technique and nomenclature.

Those who affect to discern an intimate resemblance in these two measures are invariably persons, whether professors, politicians, or bankers, who ardently advocated the Aldrich central bank bill and, to the very end, peppered "with all the ingredients of scorn and contempt" the federal reserve bill. Now that the federal reserve system has exceeded all expectation of success, these men have the effrontery to relate it to the adversary plan, the more audacious of them ascribing "three fourths of its essential

features" to the utterly rejected Aldrich scheme which they so desperately sought to put into effect. Not only is their claim entirely untrue; it is readily susceptible of complete disproof.

No fundamental idea of the Aldrich bill had its origin with the framers of that measure. Some of the essential ideas of the Federal Reserve Act had been, in different guise, considered and discussed long before either the Aldrich bill or the Federal Reserve Act was projected. The zone system of the Fowler bank bill, the Muhlemann central reserve bank plan, even the scheme of the Indianapolis Monetary Commission of 1898, and the device of the American Bankers' Association of a later date, might better be appealed to in the citation of similitudes than the scheme of the Aldrich bill. Very much more to the point than any of these might be adduced the organization and practices of the great clearing houses of the commercial centres of the country; for it was right here that the generic idea of the federal reserve system had its origin and from this base the structure was erected with all its lateral parts.

So manifestly dangerous and contrary to the genius of democratic institutions was the Aldrich scheme of monetary reform that the Republican party, with President Taft as its leader, failed to accept it; the Democratic party, with Woodrow

Wilson for its nominee, openly rejected it, and the Progressive party, which nominated Theodore Roosevelt for President and polled 4,000,000 votes, denounced it as a scheme "to place the currency and credit system of the United States in private hands, not subject to effective public control." Not a member of either House of the Congress ventured to propose the Aldrich bill as a substitute for the federal reserve bill. Not one of the surviving Senators or Representatives who were members of the Aldrich Monetary Commission seemed willing to present for consideration that imperialistic scheme to seize the banking business of the United States. Aside from the technique familiar to all banking and currency schemes and excluding from the computation the nomenclature that inevitably applies to descriptions of commercial paper and discount operations of banks, there are few features of resemblance in the two plans. They differ in principle, in purpose, and in processes; and if these inherent dissimilarities, radical as they are, were not in themselves sufficiently obvious to prove the case, there could be summoned a witness whose competency and credibility would not be questioned by any person with the least regard for historical truth.

The late Senator Nelson W. Aldrich was chairman of the National Monetary Commission.

He knew well the underlying principles of the bill presented to Congress by that commission. He was perfectly familiar with the text of the bill itself, which he was supposed to have drafted with the assistance of the commission's experts. The Rhode Island Senator, for years chairman of the Finance Committee of the upper branch of the Congress, had an intimate knowledge also of the provisions of the federal reserve bill. He had a mind so accustomed to financial analysis and a discernment usually so clear that he was universally regarded as a master among publicists. His very name attached to the Aldrich bank bill caused thousands of American bankers to accept it without asking or knowing much about it.

On October 15, 1913, before the Academy of Political Science in New York City, Mr. Aldrich delivered an address on "Banking Reform in the United States." It occupies sixty-two printed pages in the record of proceedings, and was devoted, almost in its entirety, to an examination of the major provisions of the banking and currency bill passed by the House and subsequently enacted into law as the Federal Reserve Act. If anybody who is too simple to differentiate for himself the inherent contrarieties of the Aldrich bill and the Federal Reserve Act will read this address, he will quickly see that Mr.

Aldrich did not make the inscrutable blunder of relating the one measure to the other.

Directly at variance with his ordinary style of circumspect speech, Mr. Aldrich, in his Academy address, was vehement in his criticism of the federal reserve bill. He was so harsh in his judgments and unsparing in his characterizations as to suggest the supposition that he had emulated the example of that British prime minister who confessed to delivering speeches which had been prepared for him because he had not the time to prepare them himself. It might well be wondered if the intemperate zeal of this Academy address, with its positive violence in denunciation of the federal reserve bill, should not be imputed to some disappointed academician among those who were paid large fees to contribute ideas to legislative problems which were rejected. Apart from the impetuosity and the fierceness of the address by Mr. Aldrich, foreign to his habit of debate, the production betrayed a tedium of literary and historical research and a perceptive, scholastic flavour that revealed the Rhode Island Senator in an entirely new rôle.

Mr. Aldrich in that New York address assailed every essential feature of the Federal Reserve Act: (1) He attacked the regional organization of the system as contrasted with his

central bank plan, finding fault with every detail of the scheme and operation of the divisional banks. (2) With the incisiveness of a trained satirist he ridiculed and, with the indignation of an irritated statesman, he literally screamed at the note-issue provision of the bill, bedecking it with vituperative epithets such as "fiatism" and "greenbackism," and "Bryanism." (3) He bitterly criticized the establishment of the Federal Reserve Board as an irresponsible central bank with extraordinary powers improvidently granted. (4) He berated these various powers separately and collectively, predicting that their exercise would lead to a financial oligarchy. (5) He denounced the bond-refunding feature, predicting tremendous losses to the banks and suggesting the probability of an utter destruction of the entire national banking system. (6) He condemned the rediscount requirements as inflationary to the last degree. (7) He railed at the open-market section of the act as viciously accentuating the power of the reserve banks to inflate the currency by issuing inadequately secured notes. (8) He savagely assailed every reserve feature of the bill, particularly the fundamental idea of withdrawing the reserve funds of the country from the great money centres. (9) He deplored the apparent purpose of the bill to make the reserve banks active

institutions in competition with the great banks of the large cities, with the consequent severance of long-established business relations. (10) He charged that no provision was made to promote foreign trade. (11) He attacked the redemption features of the bill as utterly insufficient and decrepit. (12) He deplored the proposition to establish a system of bank clearances. (13) He predicted that the shifting of reserves would create intense confusion and bring about momentarily a destructive contraction of commercial credits. (14) He deprecated the reduction of reserve requirements as wholly useless and undesirable, prophesying that it would lead to indefinite and destructive inflation. (15) He insisted that the statutory interest rate throughout the country should be uniform everywhere, and severely condemned the power given to the reserve board to differentiate conditions or circumstances. (16) He commented adversely on the failure to limit the amount of discounts which member banks might make. (17) He censured desperately the plan of government deposits. (18) He charged that unexpected favours were accorded bankers in great centres. (19) He said the bill was "socialistic" in its features of government control. (20) He pronounced the bill unconstitutional in its grants of power. (21) Finally, ascribing paternity of

the bill to three Virginians (meaning Wilson, Owen, and Glass), he appealed to the utterances of John Marshall and to Professor George Tucker, friend and biographer of Jefferson, to rebuke these improvident sons of that commonwealth who, "while they have not ignored the lessons of experience, are apparently afraid to make their legislation conform to its teachings on account of the declarations of a party platform."

Summarizing his pronounced objections to the federal reserve measure, Mr. Aldrich, since acclaimed by his confused and beaten partizans as the real author of the bill he thus condemned, concluded his philippic in these words:

"I have tried to show that the bill has serious defects. It appeals to the populists by adopting their plan of note issues; to the socialists by seeking to place the management of the most important private business of the country in the hands of the government; it seeks the support of bankers in great centres by its unexpected discrimination in their favour, but its dangerous doctrines and unwise methods do not appeal to the judgment of the American people. Its objectional features have neither the support of public opinion nor the approval of the banking fraternity. They are contrary to the teaching of economists and they are not supported by the

judgment of practical men. It threatens to upset business and to produce the evil results it was projected to cure."

Thus, it is seen, Mr. Aldrich claimed no share, whatsoever, in the federal reserve bill. On the contrary, he ranged rough-shod through every section of it. Not a fundamental provision was left untouched by his intemperate denunciation. And it is a poor tribute to his discernment and his frankness to suggest that he would have been foolish enough to excoriate bitterly before an audience of political economists a piece of legislation which had been patterned after his own production. The false claim, which Mr. Aldrich would have scorned, was first set up at an exigent moment in the presidential campaign of 1916 as a counterpoint to the boasts of an opposing party. It was promptly and searchingly controverted on the floor of the House of Representatives by the chairman of the Banking and Currency Committee of that body in a speech which challenged contradiction in any particular. No answer in general or in detail was made in that forum then; nor has any answer been made anywhere since that had the slightest responsibility attached to it. While the bare assertion itself now and then crops out, the remarkable address of Mr. Aldrich before the Academy of Political

Science stands as a permanent and conclusive answer to the impudent claim. And it passes all comprehension, in view of this authentic record, how any person can expect to be believed when he asserts that the Federal Reserve Act is, in either a practical or theoretical sense, an imitation of the Aldrich currency scheme.

It is needless to add that the evil predictions ventured by Mr. Aldrich with reference to the federal reserve system have not come true and never will. The notes he misbranded as "fiat" are at a premium in every money mart of the outside world; the national banking system has not been destroyed, nor has a single national bank lost a dollar on its bonds; the readjustment and transfer of reserves from the money centres to the regional banks was accomplished without a ripple; the bank clearing system has been the wonder of modern banking, saving to commerce more than a hundred and fifty million dollars per annum; the redemption features of the bill stood up through the exigent period of a great war without being even jarred; the system has not "upset business," but, on the contrary, has preserved the country from disaster; the act's constitutionality, thrice tested as to two vital provisions, was thrice affirmed by the courts; there has developed no inability to keep credit and currency issues within bounds, as is

proved by the furious, but ignorant, outcry of inflationists against the imaginary "crime of deflation"; and, while it was true, as Mr. Aldrich asserted, that the system when first set up "had not the approval of the banking fraternity," it has so established itself in all the nation that Congress this moment is being besieged by "the banking fraternity" to give the federal reserve banks an indeterminate charter!

In less than three years after Mr. Aldrich predicted "a financial oligarchy" under the federal reserve system, his chief coadjutor in the construction of the imperialistic Aldrich bank scheme was urging Congress to broaden the field and make more imperative the powers of the Federal Reserve Board at Washington! The system is so devoid of the nature of an "oligarchy" as to be not quite far enough removed from the impious threats of the agitator. And yet few more inspiring incidents of public administration have ever occurred, although little observed, than the refusal of the United States Senate to confirm to the Federal Board a mere servitor of a disgraced Cabinet minister and the refusal of the Board itself to permit a President of the United States to usurp its lawful functions by assuming to name an utterly inexperienced and incompetent local politician to a position of commanding importance in a

federal reserve bank. In the one case, veteran Senators revolted who never before were known to hesitate when their administrative head spoke, while, in the other case, the fellow who travelled fifteen hundred miles to be initiated, as a purely political appointee, into the technique of reserve banking was by the Board summarily sent back to his distant home with his bread-basket empty.

While the Federal Reserve Board may never, if it should ever, become so detached and so completely independent of legislative and executive influence as to assume the status of the "Supreme Court of Banking," as many eminent bankers have desired, it is certainly to be devoutly wished that it may permanently hold such a high place of appreciation in the confidence and esteem of the country as to make it futile, if not positively dangerous, for political vandals to practise their arts against it. An intelligent and fearless performance of its functions involves as much of sanctity and of consequence to the American people as a like discharge of duty by the Supreme Court of the United States.

Neither in this chronicle nor ever before have I thought it important or even desirable to discuss federal reserve legislation in a partizan vein.¹

¹"We have not desired to approach or consider the question from the standpoint of party politics. It is too universal a problem for that. It

In its practical operation and its beneficent effects it is of little consequence whether the Reserve Act was enacted under a Democratic or Republican administration of the federal government. It is only when some partizan, with blameworthy purpose, has sought to have it appear that the Reserve Act, passed under the administration of one party, was a mere imitation of something attempted by the other, that I have ever ventured on this phase of the subject. And it was a provocation of this kind that induced me to give place to this chapter in this book. For a reason akin, I now take note of the closing act of Professor Seymour's federal reserve drama, with Colonel House behind the scenes. Here may be discerned the same thread of illusion that weaves its way through the play from first to last. As if it were not enough to minimize Mr. Wilson's major personal part in reforming the currency, Professor Seymour finally would deprive his administration of credit

is not a matter for party advantage. I have kept in constant contact and pleasant intercourse with the ranking minority member of the committee, giving him every successive reprint of the bill, affording all the information that he might desire, and inviting in good faith such suggestions as he might care to make. And now, Mr. Chairman, sure of our ground, yet conscious of human limitations, we submit this bill to the judgment of the House, challenging a fair consideration of its provisions and devoutly invoking the patriotic coöperation of our colleagues in what should be a great service to the country and a memorable achievement of the Sixty-third Congress."—Concluding words of speech by Carter Glass in presenting the federal reserve bill to House of Representatives, December 10, 1913.

for doing anything more than managing to tramp over the blazed and beaten path trod by his political adversaries; and Colonel House stands behind the curtain consenting! Among Doctor Seymour's concluding sentences in the *Intimate Papers* is this:

"The main principles of the solution [the Federal Reserve Act] finally carried through by Wilson, the Republicans had advocated, individually or collectively; but they had lacked either the courage or the strength to write them into law."

This is but an echo of the Aldrich claimants, expressly rejected by Mr. Aldrich himself. There is, I submit, scarcely a word of real truth in the statement. When did Professor Seymour's party, or any other until the advent of Wilson, ever advocate (1) a regional reserve bank scheme, under government supervisory control as against bank ownership and control? When did it ever favour (2) a reserve banking system composed jointly of compulsory and permissible membership? When did it ever suggest (3) a system of altruistic central control, totally divested of banking connections and (4) a regional control shared by the stockholding banks with the government of the United States?

When did it ever present for consideration a scheme involving (5) compulsory impounding of national bank reserves, with a permissible impounding of state bank reserves, in either a central bank or regional banks? When did it ever draft or advocate or suggest (6) a measure to deprive the great reserve and central reserve cities of any part of their reserve repository privileges, largely responsible for financial panics, or (7) a bill to decentralize commercial credits in ordinary course of trade while instantly mobilizing the entire financial strength of the system in time of stress? When did it ever present a measure (8) to set up a great par collection system, handling items aggregating two hundred and fifty-eight billions of dollars per annum, making a solvent business man's check on a solvent bank as available all over the nation for its face value as the gold in the Treasury? When did it advocate a banking bill that (9) authorized open market operations by regional banks to regulate rediscounts and provide a vital use for idle funds? When did it ever, as a principle or a policy, advocate (10) a composite note, put out by the government as its own obligation, but issued only on application of a regional bank with joint liability of all regional banks? When did it ever favour (11) a banking scheme providing a diversified as against a

uniform rediscount charge throughout the country? At what period of its forty years of power at Washington did Professor Seymour's party (12) "lack the strength" (to say nothing of its courage) to put these principles and policies of banking into effect had it desired to do so?

Yet, with Mr. Aldrich categorically condemning all these things; with every member of his party in the United States Senate, but three, voting against every one of these principles and policies of banking as embodied in the Federal Reserve Act, and the overwhelming majority of its members of the House of Representatives doing likewise, Dr. Seymour thinks it is cleverly proper, in what he asserts to be a historical narrative, to inject a partizan plea which would strip President Wilson's administration of all semblance of initiative and every whit of originality in the great achievement of banking and currency reform! And Mr. Wilson's "silent partner" remains silent!

CHAPTER XVI

OLD GUARD'S LAST STAND

System Imperilled by Consolidationists—The President Angered—Reorganization Was Imminent—The Scheme Abandoned

IT IS not the purpose of this narrative to deal with federal reserve administration. Naturally, there have been mistakes. Such mistakes as have been made were not of a nature to impair the effective operation of the system. Moreover, it may be noted with satisfaction that, in the important particulars in which the validity of the Act has been assailed by antagonistic interests, its constitutionality has been upheld by the courts from the lowest to the highest.

There is one episode related to administration which occurred so soon after the system was set up and which was so intimately concerned with the very integrity of original federal reserve legislation itself as to make a reference to it here seem altogether pertinent. The pertinacity of those who held to the consolidationist view of bank credits has already been made clear. As we have seen, they ardently desired a central

bank; and, denied that, exhausted every resource of ingenuity to prevail with Congress to make the number of regional banks as few as three, to be located in the three great central reserve cities.

When, after months of consideration and discussion, this was not done, it was supposed the fight was ended. But it was not. The zeal of those advocating centralization was unabated and their persistence unchecked by repeated reverses. They carried the fight into the administration of the system; and, in less than one year after the federal reserve banks were organized for business, the Federal Reserve Board at Washington entered upon a startling task of abolition which might have contravened the purpose of Congress by reducing the number of regional banks to any point at which the Board might have pleased to desist! This extraordinary action was proposed and entered upon under an interpretation of the statute which, if valid, could have completely subverted the intent of the framers of the law. Indeed, the action proposed marked a critical moment in the history of the federal reserve banking system, for it not only involved an inevitable clash between Congress and the Board, with its attendant bitterness, but also would have precipitated a violent agitation in the districts

sought to be abolished as well as in other districts which might proceed in constant dread of a similar fate whenever it should suit the notion of the Federal Reserve Board to put them out of business.

It was understood to be the intention of the Board to eliminate immediately the banks at Kansas City, Minneapolis, Atlanta, and Dallas, deferring action on the Richmond and Boston banks, with the decision as to the last-mentioned contingent on the willingness of the New England member banks to be transferred to New York. The crucial point was as to the legal right of the Board to disestablish a single one of the twelve banks. Granted authority, under the statute, to revoke the charter of one, the right to consolidate the system into three central reserve city banks, so desperately, but vainly, fought for in Congress, would have been confirmed. Disestablishment might not have proceeded that far; but it is by no means improbable that it would have gone to exactly that extreme without prompt executive intervention.

The committee of the Board having charge of the matter, composed of Messrs. Warburg, Delano, and Harding, was good enough to send me a copy of its report under seal of confidence, whereupon I lost no time in writing a protest against the action proposed to be taken, courte-

ous altogether, but unmistakably and severely frank in expression of dissent. This letter challenged the legal right of the Board to disestablish any regional bank once organized and authorized to begin business, holding that Congress alone could abrogate the charters of a reserve bank and terminate its existence, except in case of liquidation by the Board for violation of law; even in that event, a reorganization was suggested. There was given in the letter a hurried, but I think conclusive, review of the related provision of the Act, with the circumstances attending its consideration and adoption. The argument led inevitably to the view that it would be a stark usurpation of power for the Board to persist in its contemplated course.

It is proper to state that, while Mr. Delano, to whom my letter was addressed, was among those who felt the Federal Reserve Board was authorized by law to take the action proposed and advocated inquiry into the feasibility of it, he was not, as I recall the circumstance, an advanced consolidationist, intent on abolition of regional banks for the mere sake of centralization.

Because of the transcendent importance of the proposition, with its potential consequences, and as a matter of ready reference to the readers of

this chronicle who would care to be apprised of the more interesting circumstances associated with federal reserve legislation, the appended correspondence is presented as a fairly clear exposition of the controverted point as I viewed it:

Washington,

November 13, 1915.

Confidential

MY DEAR MR. GLASS:

On behalf of the Committee of the Federal Reserve Board, who have had the matter in charge, I send you herewith the first copy of report which has been prepared, and which will be presented to the Board at the meeting on Monday morning. This is, of course, confidential information which is not being given out but, as the author of the Federal Reserve Act, I think, and our Committee feels, that you are entitled to it. An added special reason for it is that various rumours have gotten out as to what the Committee had in mind to do, and we wanted you to form no wrong impression.

Yours very truly,

F. A. DELANO.

HON. CARTER GLASS,
c/o Raleigh Hotel,
Washington.

Washington, D. C.,

November 13, 1915.

Strictly confidential

MY DEAR MR. DELANO:

On reaching my hotel to-night I find your confidential note, with enclosure of report of your committee, for which I thank you. I had read in the *Washington Star* of yesterday a paragraph to the effect that the Federal Reserve Board contemplated some such action as that proposed by your committee; but, being somewhat incredulous, I called Dr. Willis over the 'phone last night to ascertain, if I properly might, whether the publication had a real basis in fact. Being assured that it had, I to-day prepared a statement for the newspapers in which I challenge the right of the Board to do what is suggested and comment on the reason assigned by the *Star* for the meditated proceeding. However, aside from my utter distaste for newspaper disputation, I am otherwise dissuaded from public discussion of the matter just at this moment.

You have been so consistently courteous and cordial to me, my dear Mr. Delano, and so considerate also, that it pains me to have to disagree radically with any view that you express concerning the administration of the federal reserve system. Yet, the very fact that I have

felt so strongly drawn to you and have been so confidently impressed by your earnest devotion to the work of the Reserve Board prompts me to write very plainly with respect to the committee report which you have done me the kindness to transmit.

I was among the few members of the House Banking and Currency Committee who hoped that the Reserve Board Organization Committee would start the system with the minimum number of regional banks. I was among the *very* few members of either branch of Congress who felt that there was much exaggeration of the real peril in Mr. Warburg's "piping" system which received such scant consideration; so what I say now may not be related to any preconceived prejudice against a reasonable concentration of reserves or liking for a large number of reserve banks. I simply question outright the power of the Federal Reserve Board to reduce the number of banks and, apart from every other consideration, I think such action would be a usurpation of authority for which no defense can be found in the text of the act itself, and I know it would be a perversion of the intent of those who drafted the bill and managed the legislation.

The currency bill, as originally drawn, contained no reference to the question of abolishing

reserve banks beyond that involved in the paragraph relating to the charter life of a bank, which could be terminated only by act of Congress or by forfeiture for violation of law. This was held by most of us to be sufficient. But there were members of the Committee so bitterly opposed to the centralization of reserves and so fearful of control by a few banks, in subjection to "special interests," that an amendment was made which provided that "*no federal reserve district shall be abolished nor the location of a federal reserve bank changed except upon the application of three fourths of the member banks of such district.*" In vain some of us pointed out that this was in conflict with the "charter-life" provision of the bill: those fearful of a system of few banks prevailed in the House Committee. But the Senate Committee, noting the conflict, eliminated the amendment cited; and the House conferees on disagreeing votes, of which I was one of two, concurred in the alteration, for the reason indicated. Thus we gave the Federal Reserve Board authority to "create new districts," distinctly modifying the term by immediately and clearly indicating that the modus was to be by multiplication, "not to exceed twelve in all." To "create" doesn't mean to "destroy." We distinctly did not give, even by implication, nor intend to give, the Board power to reduce the

number of banks first created. There is not, in my belief, a vestige of sanction in the act for any different assumption. Certainly there is no warrant of authority to "abolish" districts in the power conferred on the Board to "readjust" district lines. Readjustment of lines cannot mean extinction of districts, nor can the power to "review," upon appeal, the work of the Organization Committee in locating reserve banks be reasonably interpreted into authority to "abolish" banks. No such interpretation of the phrase, standing alone, would be tenable: read in connection with section 4, expressly reserving to Congress alone the right to dissolve banks, such interpretation, as it seems to me, is impossible. But this strained construction of the phrase, if ever admissible, could not be applied now without coming in plain and sharp conflict with the charter-life provision of the act or without involving the federal reserve system in disastrous litigation. Such action to be regarded, in any sense, as a "review" of the work of the Organization Committee as to chartering banks, should have been taken (1) before the Secretary of the Treasury, as required by the act itself, "*officially announced the establishment of a Federal Reserve Bank*" in a specified district and (2) before the bank proposed to be abolished had been, as provided by the law, "*authorized by the*

Comptroller of the Currency to commence business under the provisions of this act."

But, as I have said, it was never intended that these terms should bear any such construction as that which I fear your committee placed on them, albeit you do not explicitly say upon what sanction of law the Federal Reserve Board would rely for the extraordinary action proposed. I am not a lawyer nor an adept in the interpretation of law; but I do know what the proponents of the Federal Reserve Act and the managers of the legislation intended to write on the statute book.

Moreover, assuming that you have the power, I find myself unable to agree with your committee's argument for the proposed action, and I totally dissent from the printed reason ascribed to the Board for its contemplated abolition of certain reserve banks. Congress did not act carelessly nor in ignorance in fixing the maximum number of reserve banks. I am writing hastily at my hotel, where documents are not available; but in the archives of my committee room is abundant evidence of the painstaking care with which expert compilations were applied to this question, and not one of the existing reserve banks falls one dollar under the computation of probable resources made by our actuaries, so there has been no decentralization of reserves

beyond that which Congress deliberately sanctioned. Of course, I do not know with what evidence your committee can fortify its suggestion that Congress did wrong in authorizing, and the Organization Committee in establishing, twelve reserve banks; but I cannot imagine that it relates to lack of resources, because the chief officer of one of the reserve banks proposed to be abolished has recommended to the Board that it shall include in its suggestions to Congress an amendment to the Federal Reserve Act authorizing a return to member banks of 95 per cent. of the normally available capital subscribed, thus radically reducing the capital resources of the banks! Furthermore, it is in the power of the Board to make the resources of strong banks available to aid weaker banks in time of stress. It is a complete, not a fragmentary system.

I cannot think, either, that your evidence relates to the reason given in the *Washington Star* for the abolition of certain banks, to the effect that "four of the banks lost money for the quarter ending September 30." You know and I know that some of the administrators of federal reserve banks have not tried to earn expenses. Quite the contrary, they have tried not to earn expenses; to my knowledge they have intrigued to this end. And this to me is not astonishing, for a member of the Board and your committee,

our mutual friend Mr. Warburg, has publicly proclaimed that he would have been "ashamed of these banks" had they earned their expenses. While I do not agree with Mr. Warburg as to the economics of this view, I am cheerfully willing to concede that there was nothing sinister in his declaration; but there are those who will misunderstand his remark and ascribe it to a desire to wreck the federal reserve system and build upon its ruins his eagerly desired bank of banks. And if the Federal Reserve Board, either through usurpation of power or exercise of authority which the Federal Reserve Act may be thought to confer, should at this time try to abolish certain reserve banks because all the banks have not earned expenses, Mr. Warburg's avowed wish that they shall not be self-sustaining will be plausibly imputed to him and to the Board as undisguised hostility to the system and part of a scheme to discredit it. And, unhappily, this belief would be accentuated by the incontestable fact that the Board itself, under the persistent leadership of Mr. Warburg, has failed to put into operation mandatory provisions of the Federal Reserve Act which were intended to enable the federal reserve banks to earn expenses, and which no member of the Board, I must assume, will deny would enable these banks to earn expenses. It is my deliberate judgment that the action

proposed by your committee, if taken at this time, would arouse a spirit of ferment, and of bitter resentment in the country, especially in the large sections affected, which would speedily be reflected in action by Congress.

I have frankly admonished Mr. Warburg in the kindest spirit of sincere friendship that his conception of the federal reserve system as a purely "emergency" institution is wholly foreign to the view of the administration which recommended and the Congress that brought that system into being. It was never intended by anybody who had any effective part in the inception and passage of this legislative act that these banks should be practically moribund for nine out of every ten years of their existence and only be put into action to "save a situation" or to retrieve a financial disaster.

If we want a system of that kind, we can return to the hybrid Vreeland-Aldrich scheme, which would enable us to abolish the Federal Reserve Board, as well as the federal reserve banks and conduct the enterprise from a corner bureau in the Treasury Building. I have supposed that in the Federal Reserve Act we had instituted a great and vital banking system, not merely to correct and cure periodical financial debauches, not simply, indeed, to aid the banking community alone; but to give vision and scope and

security to commerce and amplify the opportunities, as well as to increase the capabilities of our industrial life at home and among foreign nations. I am not willing yet to think that I have misconceived the thing.

I have written ten times more than I purposed to say, Mr. Delano, when I started to acknowledge the courtesy of your note; and, what is more, have written with my own hand, which is distinctly against my physician's advice. But I cannot conclude without taking the very great liberty to suggest that you should long and carefully consider the astounding intimation of your committee that the federal reserve system, which at the very weakest period of its existence—in its infancy, so to speak—has withstood the shock and upheaval of the greatest war in the history of the earth, will, in its growth and strength, be gravely endangered when the readjustments of peace ensue. To me this is startling. I believe such a forecast of deficiency seriously made public by the Federal Reserve Board would alarm the country to the point of panic, and do it instantly. I believe it would put a check to enterprise and a rein upon endeavour that would result in immediate doubt and ultimate disaster. I do not at all participate in your fears. I think we have a good banking system, which will continue to prove itself in larger measure as those

who administer it give it a fair chance and operate it with confidence. I know you want to do this, and I could wish for you no greater distinction, nor for our country any greater blessing, than would be involved in the actual achievement.

I hope to be able to have this letter typewritten before I leave for New York Monday morning and to subscribe myself, with cordial regards,

Faithfully yours,

CARTER GLASS.

HON. F. A. DELANO,
Federal Reserve Board,
Washington, D. C.

Whether this letter of mine influenced later events, I shall not pretend to say. The note to me was received Saturday night, November 13th. My reply was written instantly and dispatched early Monday morning. The action contemplated by the Board for Monday was deferred for one week to get legal advice from the Attorney General of the United States, who was furnished, by request, with a copy of the foregoing letter. The opinion of the Attorney General was adverse to the action proposed by the Board, and the matter was not pursued.

However, for the moment, the suggested procedure provoked intense feeling among those

privy to it. The Board was arrayed in two factions, the division being four to three, one side assuming to be trustees for the banks and viewing the other as representing the government. My data, made at the time, reveal the existence of astonishing hostilities and a threatening situation. On Saturday, November 20th, in a long talk at his home, I warned Mr. Warburg that the Board should not pursue the course it had in mind without first getting the sanction of Congress by amendment of the Act. On Sunday, November 21st, the day before the appointed time for the Board to act on the committee report, the President summoned me to the White House for a conference on the subject. He knew one side of the various controversies which had disturbed the Board. I gave him both sides, derived by me from conversations with members of the opposing factions. The President asked me if I did not think the situation was sufficiently threatening to warrant an immediate reorganization of the Board. Against this, at the time, I strongly advised, for reasons which subsequently were set down in my diary, the text of which reproduced here would make reading decidedly more interesting than judicious. There can be no possible doubt that the Board would have been summarily reorganized by the President under his power of

removal had it taken next day the action which was contemplated. The President, aside from being greatly exasperated, wholly concurred in the view that such action by the Board would constitute an intolerable usurpation of power, without either textual or implied legal sanction. Happily, the thing was not done; and soon thereafter a better concert in the Board seemed to prevail.

As far as I know, this was the first and only time President Wilson ever approached the point of executive intervention with the affairs of the Federal Reserve Board; and this time he felt that he must act to avert what seemed to him a plain defiance of the will of Congress, albeit the Board was fortified by an approving opinion from a New York lawyer whose obliquity of vision in contemplating federal reserve legislation was as consistent as it was extraordinary. Distinguished in his profession, he never once appeared able to understand the genius of the federal reserve system or to comprehend what it was all about.

Two members of the Board had, on occasion, complained quite bitterly in conversation with me of the President's indifference to the Board and its transactions and suggested that the Board was entitled to a more cordial recognition and sympathetic coöperation of the President.

They appeared to think that with this there would be less friction and better progress. Whether or not this suggestion to me was intended to reach the President I never knew. However, suspecting that such an idea was back of it, I did venture soon thereafter to mention the subject to Mr. Wilson, whose response was to the effect that he had purposely refrained from contact with the Federal Reserve Board because he wanted the Board to feel perfectly free to pursue its course within the law without a particle of constraint or restraint from the Executive. "The very moment that I should attempt to establish close relations with the Board," added the President, "that moment I would be accused of trying to bring political pressure to bear." The President held to the obviously proper view that commercial credits and banking processes were matters which should be as far removed from all sinister influences as one pole is from the other. It was to insure just this thing that the federal reserve system was devised, and a single departure from which once threatened disastrous consequences.

CHAPTER XVII

A "CONSPIRACY" THAT DIDN'T OCCUR

*Fable About a Cruel Abridgment of Bank Credits Dissected
—Nothing of the Kind Happened—How a Plain Business
Conference Was Misinterpreted Three Years After*

WHEN it is recalled that, in the memorable panic year of 1907, three months before the crash came which rocked the very foundations of the nation's economic structure, the aggregate rediscounts of all the national banks in the United States was but \$58,000,000, as contrasted with the rediscounts of \$2,687,383,000 at the federal reserve banks alone on January 1, 1921, we may get some conception of the service performed by this new banking system to the commerce and industry of the country in this period of post-war reconstruction. And when it is shown that in 1920 the rediscount loans of some of the reserve banks in various agricultural states equalled and, in some instances, exceeded the total rediscounts of the national banks in all the states in 1907, one may well marvel at the effrontery of the person who has no better discretion than to challenge the ordinary understand-

ing of the public by railing at the federal reserve system for an "abridgment of legitimate credits" in the period of extraordinary depression. It was fairly computed that of the total of rediscounts at the twelve regional reserve banks in 1920, at least \$1,800,000,000 represented loans for the agricultural industry.

Notwithstanding this there is a fable still afloat, which has its amusing as well as vicious aspects. The story is retailed with vehemence in certain sections of the country by those professional friends of the farmer who would find subsistence without real work a distinct hardship once deprived of their repertoire of such tales of imaginary "outrage." It is to the effect that the Federal Reserve Board had a "secret" conference at Washington in May, 1920, at which it was resolved to deflate prices of agricultural products by retiring currency and abridging credits for these essential things. Outside a circle of paltry agitators addicted to fooling the farmer for a living, this invention has received scant credence except from persons who obstinately refuse to accept the truth or are incapable of understanding the processes of the federal reserve system.

The truth is that the Federal Reserve Board could not have legally done what the accusation implies, as any person of sense may see by an

examination of the federal reserve statute. Moreover, the recorded facts and official figures literally disprove the stupid assertion. Besides, no human being can form any credible conjecture as to why the Federal Reserve Board, except in aimless malice, could have desired to do anything of the kind suggested. The Board is strictly an altruistic body. Its members own not a dollar of bank stock nor are they permitted bank connection of any description. They could have no possible motive to inflate or deflate the currency arbitrarily had they plenary power to do either. Their salaries are fixed by law. Acquisitively, it is nothing to them whether the currency is extended or contracted. They cannot issue a federal reserve note but on demand of a bank nor retire one except pursuant to a defined commercial transaction. Two thirds of the directors of reserve banks are selected by the member banks of the respective regions and the other third from business men and farmers of the localities. They constitute a part of the life of their communities and could have no conceivable desire to injure themselves or their neighbours by resort to illicit or punitive banking methods.

The alleged "secret" conference of the Federal Reserve Board was proclaimed in practically every newspaper in the United States served by the major press associations. Reporters were

not present, of course, as they should not have been and as they never are at any bank board meeting in the world where the delicate subject of individual, community, or nation-wide credits is discussed. This meeting of the board in May, 1920, was to hear reports of trade conditions and the credit situation throughout the United States from federal reserve agents and Class A directors of all the regional reserve banks and from members of the Federal Reserve Advisory Council.

The press and sane business men everywhere were at the moment inveighing against the shocking speculation and extravagance which had seized the country; and prosecuting officers, from the Attorney General of the United States down, were being bitterly censured for not "putting price profiteers in jail." Congress had twice by resolution asked the Federal Reserve Board what it had done or proposed to do to abate the alarming waste and expansion which were threatening the economic foundations of the nation. While the Board had no power to initiate rediscount rates at the federal reserve banks, it was required by law to review such rates when instituted by these banks. It was perfectly manifest that there must be rate readjustment at some of the regional banks before long as they were extended to a point of great peril; and it was to learn the exact status of each

district directly from its accredited representatives that this meeting in Washington was held. This was necessary to enable the central board to review intelligently any rate readjustments that might be presented by the regional banks for its consideration. No more sensible thing than this was ever done by the Board.

So far from being "secret," the address to the conference of the governor of the Board, comprehensive in its nature, was ordered to be given to the press and mailed in printed form to the 30,000 banks of the country with a view of impressing the public with the gravity of the situation as seen from Washington. This address textually disclaimed either purpose or power of the Federal Reserve Board to "interfere with the details of the business of federal reserve banks." It contained a temperate remonstrance against the "orgy of speculation and extravagance" which was threatening legitimate business and, by abusing the credits of individual banks, was impeding the movement to markets of the very essentials of life. "Borrowings for pleasure and luxury," the speaker thought, should be subordinated to "essential loans for necessities." It was not for federal reserve authorities to define luxuries or necessities; this must be left to the discriminating judgment of individual bankers. Far from suggesting any curtailment of agricul-

tural credits, the speaker was of opinion that essential commodities should be given precedence, and particularly urged (page 33, printed pamphlet) that the live-stock industry of the West "should be taken care of" even if the federal reserve banks of that section, discovering themselves too greatly extended, should find it necessary to rediscount with the stronger regional banks of the system. The whole tenor of this address by the Governor of the Federal Reserve Board found expression in a sentence (page 5, printed pamphlet) saying:

"A sensible and gradual liquidation will result in permanent improvement, as we all know; but any attempt at radical or drastic deflation will result in very serious consequences, and such a policy should be avoided."

This address was given to the press by order of the conference; and every phase of the meeting was given unguarded publicity except the discussion of rediscount rates. As to this, those present were cautioned by the chairman of the meeting to say nothing. No caution should have been thought necessary. The gross impropriety of making public any contemplated action on bank rates even of an individual bank of magnitude is obvious to any person capable of rational

thinking. It is not done in any civilized country of the earth. Bearing in mind that the Reserve Board had no authority to initiate rediscount rates, as all the persons at that meeting acting in unison had not, for the Board or any member of it or any official present to have given out speculative opinions of what should be done or might be done with respect to rates by the directors of the respective regional banks, would not only have been dangerous in the last degree, but would have been an act of unpardonable folly.

The Board did not know, nor could any person at the meeting remotely guess, what might be the action of the respective federal reserve banks which alone had original jurisdiction of rediscount rates. As a matter of fact, opinion in the meeting sharply divided on the question. Three reserve banks in the metropolitan districts, where speculation was appalling, had decided to increase rates before the meeting at Washington was held; one or two others did likewise some six months afterward, while six of the twelve regional banks never did increase the interest charge above the point prevailing at the time this conference was held. Contemplate the simplicity of the bank board that would make advance announcement of its purpose to increase its discount rate at a given date, and imagine

how much money it would have left in its vaults to loan at the increased figure! Picture the scenes in the money markets, on the stock exchanges, and among borrowing business men throughout the length and breadth of the land had the Federal Reserve Board, foolishly exceeding its well-defined authority, made public proclamation of a purpose to advise or coerce the regional banks to initiate rate increases! Of course the May meeting at Washington neither made any bank rate increases nor recommended any. It had no authority to do either. No member of the Federal Reserve Board present advocated either. Yet, because the incidental rate discussion was not at the time blazoned in the newspapers nor given publicity until nearly three years thereafter, the silly charge is even now repeated, and by credulous souls believed, that a great "deflation conspiracy" was put into effect at this meeting.

Instead of "deflating" commodity prices by abridging credits and currency, the federal reserve banks, with the sanction of the Federal Reserve Board, prodigiously expanded credits and increased the volume of currency. Nearly eight months after this "secret" conference in May, 1920, at which it is said "a precipitate deflation" conspiracy was formed, the amount of credits at the federal reserve banks and the

volume of notes outstanding were at the highest point in the entire history of the federal reserve banking system! Here are the official figures, furnished by the regional banks, the authenticity of which has never been, as it never can be, successfully disputed:

Paper held under rediscount for member banks in each Federal reserve district, also Federal reserve notes in circulation on Jan. 1, 1920, and on Jan. 1, 1921.

FEDERAL RESERVE BANK	PAPER HELD UNDER DISCOUNT FOR MEMBER BANKS		FEDERAL RESERVE NOTES IN CIRCULATION	
	Jan. 1, 1920	Jan. 1, 1921	Jan. 1, 1920	Jan. 1, 1921
Boston.....	\$188,039,000.	\$155,293,000.	\$244,093,000.	\$288,780,000.
New York.....	790,803,000.	871,439,000.	807,616,000.	867,481,000.
Philadelphia....	237,300,000.	155,484,000.	237,051,000.	278,322,000.
Cleveland.....	164,517,000.	122,182,000.	264,738,000.	348,951,000.
Richmond.....	114,772,000.	125,473,000.	145,765,000.	155,169,000.
Atlanta.....	88,052,000.	166,640,000.	155,511,000.	173,406,000.
Chicago.....	267,639,000.	475,563,000.	500,139,000.	545,395,000.
St. Louis.....	77,679,000.	114,933,000.	145,298,000.	135,785,000.
Minneapolis....	73,857,000.	95,994,000.	87,187,000.	79,498,000.
Kansas City....	110,380,000.	139,402,000.	104,089,000.	111,578,000.
Dallas.....	28,371,000.	97,392,000.	74,930,000.	79,453,000.
San Francisco...	73,896,000.	167,598,000.	242,462,000.	272,463,000.
TOTAL,	\$2,215,305,000.	\$2,687,393,000.	\$3,008,878,000.	\$3,336,281,000.

There is the indubitable record. It affords, in small space, complete disproof of the false charge about an alleged "conspiracy" among federal reserve authorities in May, 1920, to deflate the currency and thereby to bear down the prices of

essential commodities. As already said, no human being can contrive a credible conjecture as to why the Federal Reserve Board or banks would want to do such a thing. But this aside, the figures themselves show that it was not done. They exhibit reserve bank credits of only \$2,215,305,000 on January 1, 1920, against credits of \$2,687,393,000 on January 1, 1921, *an expansion of \$472,088,000 in the twelve-month period!* The figures show also that, on January 1, 1920, the volume of federal reserve notes outstanding was only \$3,008,878,000, as against \$3,336,281,000 on January 1, 1921, *an increased note issue for the year of \$327,403,000!* There's the answer, in brief, to this wicked invention.

Meanwhile—not because of any credit or currency “deflation” by federal reserve banks, but in spite of an enormous credit and currency inflation by these banks—commodity prices in the period indicated tumbled to pieces. The Bureau of Statistics, Department of Agriculture, reported that, at the very moment when regional bank credits and note issues reached the highest point of expansion in the history of the system, cotton had dropped from 35 cents in January, 1920, to 11½ cents in January, 1921; wheat had fallen from a high of 2.54 to 1.49; corn from 1.86 to 67, and oats from 1.04 to 46. Wool, flour, pork, lard, and other commodities had fallen in

proportion. This was because consumers, both in this country and Europe, had gone on strike and the bottom had dropped out of business in America and abroad.

In the raging fever of commodity and stock gambling, prices had pierced the clouds, actually exceeding the highest point of the war period. The stopping place was reached at last. People would no longer pay. They quit stocking up. They began to live from hand to mouth. A paralysis of trade set in. Furnaces were banked, mills and factories were closed, building was abated, road construction halted, unemployment was rife, and the demand for all kind of products frightfully diminished. This is why prices toppled; the debacle was due to no lack of rational credit accommodations. It undeniably is true that, after the bottom had dropped out of the markets, there was an enormous diminution of credits at the regional banks and a reduction of note circulation. But nothing is more certain than that contraction of credit and currency issues subsequent to January 1, 1921, did not *cause* business depression, but was caused *by* business depression. Contraction of credits occurred *after* and not *before* the drop in prices. There was little demand for either credit or currency, because commerce and industry were in a state of torpor. Trading had almost ceased.

Wherever or whenever, in this later period, there were cases of bank accommodations being either withdrawn or denied, it was not done by the federal reserve banks, but by individual banks, whose credit men, afraid to offend their customers by withholding extensions, were both weak and deceitful enough to ascribe their own action to some imaginary "order" of the Federal Reserve Board which was never issued. Indeed, the Board repeatedly had occasion to expose and rebuke this species of deception when brought to its attention.

The whimsical feature of this alleged "secret" conference of the Reserve Board in May, 1920, with its later dénouement, was not free of an element of obliquity. This phase of the episode relates to the printing of the proceedings nearly three years thereafter and an attempt, by deliberate mutilation and perversion, to make it appear that the purpose and effect of the meeting were precisely the reverse of what was the fact. A retired member of the Board had publicly charged his former associates with unduly abridging commercial credits. Noting with amazement that this hostile criticism came from the only person at that May conference who, as they remembered, had remotely suggested a sharp "tightening of purse-strings," and an "arbitrary restriction of credit to non-essential industries and to

concerns making inordinate profits," other board members fished out of the archives the yet untranscribed stenographic notes of the meeting; had them typed for the first time and a few copies printed solely with a view to giving belated publicity, in detail, to the conference and thereby confuting the charge thus repeatedly made by the former member of the Board.

Two copies of the pamphlet, thus printed for the first time, were sent to each person who was present at the May, 1920, conference; and a copy was sent to me at the Senate chamber on January 29, 1923, with request to have it made a public document. Before this could conveniently be done an unscrupulous periodical, malevolently hostile to the Board, procured from some source a copy of the pamphlet, garbled its contents and, by a process of omission and misrepresentation that could not temperately be described, made it appear that the purpose and action of that May meeting were to abridge legitimate credits and deflate the currency in order to depress prices. The basis of this extraordinary performance was not anything tangible that was done at the conference or anything that ensued; but the simple word of caution uttered against "publicly discussing bank rates" was seized upon and stressed and given the colour of something sinister. Moreover, the periodical which, in this perverted

shape, spread the proceedings, so fresh from the printing press as that the pages were scarcely dry, was depraved enough to imply that the stenographic report had been printed three years theretofore and secretly circulated in favoured circles, with a view to giving certain interests advance notice of an intention of the Reserve Board to order a general increase of bank rates and thus enable them to profit thereby! One answer to this was the fact that the Board had not dealt with bank rates at all. Another was that the publisher knew his suggestion to be mendacious, for the imprint of the Government Printing Office on the pamphlet, as well as the accompanying letter, showed that the document had just been issued. This libellous contortion of the facts was the origin of the charge which to this moment cheap agitators repeat and feverish people credulously believe. Yet, one will search in vain the minutes of the May meeting, transcribed for the first time three years after the event, for a word from any member of the Reserve Board, thus accused by this periodical, in favour of a sharp deflation of the currency of regional bank credits. And, as decisive of the question, it is shown that reserve bank credits were not restricted by any action of that conference; but, *for eight months after the May meeting, were expanded until they touched the highest point in the history of the*

system—and this while commodity prices were swiftly dropping to pieces. The Comptroller of the Currency at that time, by no means to be regarded as especially friendly to the Reserve Board, said in a letter dated December 28, 1920:

“In my opinion, the declines which have taken place in commodity values in the past six months have been due primarily to the operation of natural causes; and these declines in orderly manner have been facilitated by the policies pursued by the Federal Reserve Board during this period. The recession from the unnatural prices which prevailed in the case of so many commodities was desirable and inevitable, and it was proper that the Federal Reserve Board should have endeavoured to have this decline proceed gradually, rather than by withholding all restraint, making possible later on a collapse and disaster.”

As proof, in greater detail, of the expansion, rather than deflation, of reserve bank credits in agricultural districts for this period of falling commodity prices, it may be stated that the reserve bank at Richmond, Virginia, accommodating the grain, fruit, tobacco, and cotton portions of the fifth district, increased its rediscounts by more than \$10,000,000 and expanded its note issue by an equal amount.

The reserve bank of Atlanta, in the cotton and fruit belt, increased its rediscounts from \$88,052,000 on January 1, 1920, to \$166,640,000 on January 1, 1921, and its note issues from \$155,511,000 to \$173,406,000, a total increase in credits of \$96,406,000.

The Chicago federal reserve bank, in the grain and live-stock section, increased its rediscounts from \$267,639,000 to \$475,563,000, and its note issues from \$500,139,000 to \$545,395,000; a total expansion of \$253,180,000.

The Reserve Bank of Saint Louis, accommodating the grain and live-stock territory, increased its rediscounts from \$77,679,000, to \$114,933,000, and reduced its note issues by the sum of \$10,000,000, leaving an aggregate expansion of credits amounting to \$27,000,000.

The Kansas City federal reserve bank, in the grain and stock section, increased its rediscounts in this period of falling prices from \$110,380,000 to \$139,402,000, and its federal reserve note issue was increased by \$7,500,000, making a total expansion of \$36,522,000.

The federal reserve bank at Dallas increased its rediscounts from \$28,371,000 to \$97,392,000, and increased its note issue by about \$5,000,000; total expansion \$74,021,000.

The San Francisco federal reserve bank, accommodating the fruit, dairy, and other farm in-

dustries of the Pacific States, increased its re-discounts from \$73,896,000 to \$167,598,000, and increased its note issues from \$242,462,000 to \$272,463,000; a total expansion of \$123,703,000.

The federal reserve bank at Minneapolis, in the grain and milling territory, advanced its re-discounts from \$73,857,000 to \$95,994,000, and reduced its note issue from \$87,187,000 to \$79,498,000; a total expansion of \$14,448,000.

Finally, it may be stated, the inflation of regional bank credits for the year 1920 was so entirely generous as to reflect a degree of improvident banking; for one federal reserve bank totally dissipated its gold reserve and would have been critically embarrassed but for the timely aid of federal reserve banks located in the industrial districts, and another federal reserve bank has on its books an amount of uncollected loans made in this period which aggregates a greater sum than the capital stock of this regional bank! And it may be added that the refusal of credits by individual banks for the period indicated must have been negligible; for the Secretary of the Treasury, in an official proclamation dated September 27, 1920, stated that the total increase of commercial loans from January 1st to that date approximated \$3,000,000,000. And these facts, taken together or separately, completely dispose of the fable.

CHAPTER XVIII

A SUMMARY OF ACHIEVEMENTS

Financing the World War—Expediting Recovery—Facilitating Credit Settlements—Abolishing Money Panics and Toll Gates—Lowering Interest Charges

THE federal reserve system was originally created with a view solely to the necessities and requirements of peace. Events, however, so shaped themselves that before the organization of the new banking system had been completed, the World War subjected it to an unexpected kind of test. It was obliged, first of all, to adapt itself to war conditions rather than those of peace, its first necessity being the restoration of the currency to normal, after emergency issues permitted by an amendment to the Act had been temporarily placed in circulation to meet the sudden requirements entailed by the great outflow of gold caused by Great Britain's urgent call for the settlement of all obligations that were due her on this side of the Atlantic.

Financing the War

This early duty was accomplished in a manner which showed the immense power of the system

and clearly established its capacity to cope with almost any emergency. During the two years which followed the outbreak of the World War, a foundation was laid not only for the adequate financing of peace requirements through the better standardization and regulation of commercial paper and the installation of a satisfactory system of collecting checks, but also for the safer management of war finance, through the establishment of an intimate coöperation between the Treasury and the banks, superseding the old sub-Treasury system, and through the preparation of a large supply of note currency for use in case of need.

Thus it was that when the United States itself entered the World War early in 1917, the way toward raising the immense sums of money that were required had already been made smooth. First necessities were met by an issue of short-term certificates which the reserve banks themselves took, but it soon appeared that new financing on a great, and even unprecedented, scale would be required. The first Liberty loan afforded a searching test of the capacity of the reserve banks; and resulted in completely demonstrating the efficiency of the machinery which the system had built up. It is not necessary to follow the successive Liberty loans and the intermediate Treasury certificate financing

completely through in all their details to understand the essential character of the service which was then performed by the reserve system. It consisted, first of all, in eliminating entirely the old-fashioned plan of paying cash to the Government, the latter immediately to pay it out again. Thereby, the weakening effect of cash withdrawals from the banking system was entirely avoided, and the Government's transactions were integrated with the credit system of the country—the result being to multiply by many times the actual power of the public Treasury in raising the funds of which it stood in need, not only for its own necessities, but, as later proved to be the case, those of the allied nations in general.

This, however, was not all. On the contrary, the second service rendered by the system in this same connection was of almost equal significance. Liberty loan requirements were so great as to require use of the entire money-raising resources of the country, and to necessitate action on the part of every section and region in adapting itself to the wishes of the Government and in putting forth its best efforts to supply what was needed. Obviously the funds so furnished had to be made available at some one place or, at most, at a comparatively small number of places. To compel their transfer from the districts in which they

were raised to the points at which the Government wished to pay them out, would in ordinary cases have caused suspension of business payments on a widespread scale all over the country. As things stood, however, it was never necessary to declare anything in the nature of a moratorium. The machinery of the reserve system promptly transferred through the gold settlement fund and the clearing system the funds that had been accumulated in remote parts of the country to the distributing points where they would be paid out, and, when so paid out, promptly redistributed these payments again to the points at which they were to be disbursed.

Without going into the technical details of the gold settlement fund, it may be briefly stated that in Washington at the Treasury Department, each federal reserve bank maintains a deposit of gold. At the close of each day's business the Federal Reserve Board, on telegraphic advice, directs the crediting and debiting of each federal reserve bank in the system with the appropriate amount by which its gold deposit has been increased or depleted by the transactions with the other federal reserve banks, with the result that by this settlement at Washington there is a book transfer of title to gold, the basic medium of exchange, without the physical shipment thereof. The daily fluctuation of the credit balance of any

federal reserve bank in the gold fund is due to the service it performs in transferring credit to or receiving credit from other federal reserve banks in order that settlement may be made of debts from individuals or banking institutions in one district to individuals or banking institutions in another district without the necessity of the physical shipment of currency. The benefit of this service is available to any banking institution, without cost, regardless of membership in the federal reserve system, for the reason that it may secure the transfer by means of the gold settlement fund through its city correspondent, which is a member of the federal reserve system.

Shipment of specie in large quantities, hoarding, accumulation of funds and similar evils which had been common in other countries and at other times were thus largely avoided through this service of the federal reserve system. It was the testimony of foreign observers that never had a banking system worked more smoothly or efficiently in the performance of a great task than did the federal reserve system. In addition to these less obvious underlying functions was the normal and essential duty of the system in making advances to those who required them in financing and carrying the Liberty bonds. At the close of the war, holdings

of bills secured by Liberty bonds were more than \$1,500,000,000.

Stabilizing Foreign Currencies

There was another and less well recognized service by which the reserve system facilitated the management of the operations incident to the war. Great Britain had from the start thought it necessary to maintain the pound sterling at a stable relationship to the dollar. France and Italy had eventually joined her in stabilizing their respective currencies at specified rates as a war measure. The system of stabilization thus created was on the point of breaking down at the time that the United States entered the war and required for its maintenance a fund in use of more than \$1,000,000,000. Not only did the reserve system furnish the funds through the sale of Liberty bonds and Treasury certificates with which the foreign governments continued the process of stabilization after our entry into the war, but it also rendered an invaluable service in transferring gold to the credit of foreign countries and in receiving it from them through mutual arrangements which it perfected with several of the foreign central banks. Through its Division of Foreign Exchange the Federal Reserve Board furthermore provided the information which was needed for the management of

the exchange operations thus undertaken. At the same time it successfully controlled, through its gold export committee, the movement of specie into and out of the country, using to that end the technical facilities of the reserve banks themselves. When it appeared that Great Britain was close to a suspension of specie payments in India, Congress passed a law allowing the Treasury Department to lend to the British Government silver then held in the Treasury Department behind the outstanding certificates. The federal reserve system provided a means for filling the gap thus left in the circulation, by means of its issue of federal reserve bank notes, and it also carried through large operations involving transfer of funds to and from India, thereby maintaining the currents of trade with the Orient from which invaluable war materials were being drawn. In all 260 millions of silver dollars were thus broken up while in place of the certificates outstanding against them reserve bank notes to \$259,000,000 were issued.

Peace Readjustments

The close of the war found the reserve system ready to render service as great in bringing conditions back to normal as those it had performed in carrying through the necessary operations connected with war finance. As gold flowed

into the country from abroad, it was received and stored in the federal reserve banks, and thereby prevented from exerting a directly inflationary effect upon prices and business conditions in general. When recession of prices occurred during 1920, as it did all over the world, the reserve system was able to cushion the shock by enlarging its accommodations to business and to agriculture, its loans a year after the recession had started being larger than they had been at the outset. The reserve banks thereby performed one of the essential functions of central banking by showing themselves able and willing to expand in the face of business contraction just as on other occasions they had demonstrated the ability to contract in the face of business expansion. At the close of the year 1920 its discounted paper held was nearly \$2,700,000,000 against \$2,200,000,000 at the opening of the year.

An Incomparable Collection Agency

No account of the reserve system and its accomplishments would be sufficient without some reference to the technical side of what it has done, notwithstanding that the more spectacular and showy aspects of the effort of the system are seen in its management of public and private credit on the great scale just sketched. Reference has already been made to the gold settle-

ment fund and the machinery of clearance and collection which had come to be so great a reliance early in the war. The Reserve Act had wisely, and against the bitterest opposition of some banks and Congressmen inspired by these banks, retained in its text a provision authorizing the reserve banks to act as clearing houses for their members, and the Reserve Board to act as a national clearing house for the reserve banks themselves. It was not long after the system had been established that the Board, in compliance with the provisions on this latter head, installed machinery whereby the gold settlement fund was created at Washington on the basis of a gold contribution made by each reserve bank. Transfers in the fund were telegraphically made, upon the orders of the several banks first weekly and now daily. The direct result has been to do away almost entirely with the shipments of gold from place to place which were formerly so expensive besides being entirely unnecessary. In each of the several districts, a par collection system has been installed, at first for the use of members but later extended to non-members. This system, in spite of the bitter attacks and the constant legislative and judicial warfare upon it carried on by specialized banking interests in different parts of the country, has performed its purpose by greatly reducing, and,

in many regions, eliminating, the oppressive and multitudinous exchange charges which at the hands of selfish country banks and their city correspondents had become so terrible a burden upon business during the years preceding 1913. The aggregate amount of checks (exclusive of duplications) handled by the system during 1919, when the system had attained its growth, amounted to 136 billions of dollars. During 1925 the number of checks handled was 778,686,000, representing an aggregate amount of \$258,611,276,000.

Banking Toll Gates

The work of the federal reserve system in connection with the plan of clearing checks at par deserves, however, very much more attention than it has ever received. In most foreign banking systems, the complicated exchange charges which have long existed in the United States are unknown. Neither in England nor on the Continent has there ever been in any recent period the practice which prevails here of charging substantial fees for the collection of checks. The system in the United States grew up as the outcome of extended development among country banks whose sources of income were at times not very abundant and which therefore seized upon opportunities for adding slightly to their earnings

which might not otherwise have been resorted to. The outcome was the imposition of a very heavy burden upon business which has been estimated variously at from \$75,000,000 to \$125,000,000 per annum. Not only was this true, but a very much more serious evil had grown up incidentally to the exchange charge. Under the old system of varied reserves according to the location of a bank, whether in the "country," a reserve city, or a central reserve city, there was an advantage to the individual bank in sending a check to some other bank which could count it as a reserve instead of sending it directly home to the bank on which it was drawn for collection or settlement. The result was that a great many banks were induced to deposit checks upon out-of-town institutions with other banks at a distance, the latter undertaking to collect them free of charge, yet to give immediate credit to the depositing bank before they had been collected. By depositing them in this way the bank that originally received them obtained a free collection service at the same time that it imposed an exchange charge upon its customer while it was also able to have the check counted as reserve in its paper for an indefinite period which frequently amounted to weeks. This system was very bad for business because it tended to keep a great volume of checks and drafts outstanding for a

long time, thereby carrying on the books of banks in general an uncollected element which tended to inflate the outstanding credit and to make it seem much larger than it really was. At times like the panic of 1907, when bank suspension had occurred, immense volume of these checks in the mails became uncollectible for the time with the result that banks were deprived of the use of their funds and had to suffer correspondingly. There was thus both a heavy burden upon business due to the existence of an unnecessary collection charge, and a serious danger to banking liquidity or solvency due to the existence of an immense amount of what was called "float." Both factors were elements of danger.

The federal reserve system set itself to correct both of these conditions. It has been somewhat handicapped by the fact that discriminating legislation directed against par collection has been adopted in a few states, while on the other hand coalitions among country banks for the purpose of preventing checks from being sent to reserve banks have tended in some degree to restrict the success and effectiveness of the reserve institutions. But this has been merely a blemish upon the great success of the enterprise. The reserve system has largely done away with the enormous and hazardous "float" which

formerly clogged the mails and prevented banks from knowing exactly where they stood, while it has immensely reduced the exchange charges visited upon the community by "toll-gate" institutions which seized this method of filling an otherwise somewhat depleted exchequer.

Benefits to Public

When it is realized that of the 27,337 incorporated banks (other than mutual savings banks) in the United States on October 31, 1926, there were 9,336 member banks and 14,066 non-member banks in the federal reserve par collection system, a total of 23,402 as against 3,935 smaller non-member banks which persist in collecting toll from the commerce of their sections, it readily may be seen how purely irrational and unbusinesslike has been the futile attempt to impede and destroy this great check collection institution. And when it is seen that the banks which are clearing checks at par, without charge to their customers, represent about 97 per cent. of the total banking resources of the United States as against about 3 per cent. for the banks which persist in exacting these fees from the business men of their communities, we well may be astonished at the fact that the legislatures of three or four states have sought to evade the decisions of the Supreme Court of the United States

by even compelling their state banks to exact collection charges of the business men of these states. Some day, when the awakening comes, legislators who thus submit to the concerted influence of small banking groups against the larger interests of commerce and industry will sharply be brought to task. The national association of every business group in the United States is on record against this unjust charge. The utterly flimsy nature of the pretense that these check-collection charges constitute "a reasonable compensation for service rendered" is revealed by the simple statement that, notwithstanding the Federal Reserve Act expressly permits clearing banks to make a "reasonable charge," to be determined by the Reserve Board, the actual cost to the banks is so inappreciable that no actuary has ever been discovered with skill enough to find out what is "a reasonable charge." It has even been computed that the net balance under the old system was against the banks exacting these fees.

The benefits which accrue to business men and to the public generally under the par clearance system as conducted by the federal reserve banks may be summarized briefly as follows:

(1) It enables the business man to get 100 per cent. payment of his invoices in the most convenient and expeditious manner. This means

that when he receives a \$100 check for a \$100 invoice he gets \$100 for it, not less.

(2) It has made the check of the business man, be he merchant, manufacturer, or farmer, a much more satisfactory and acceptable means of payment for all purchases, even in distant cities. It has relieved him from having to purchase drafts or carry bank balances at distant places in order to make distant payments.

(3) It has reduced to a minimum the time required to collect checks, thereby making the proceeds of a check available to its owner much sooner than formerly.

(4) It results in a much more expeditious handling of checks, thus providing prompt advice and return of dishonoured checks, and minimizing the chance of loss through bank failures.

The Legal Status

The par clearance of checks by federal reserve banks is conducted pursuant to the express provisions of the Federal Reserve Act, which have been construed by the Supreme Court of the United States to mean that:

(1) Federal reserve banks are required by law to receive and collect at par all checks drawn upon member banks of the Federal Reserve System;

(2) Federal reserve banks are authorized to

receive and collect checks drawn upon non-member banks, if such checks can be collected at par;

(3) Member banks are required by law to remit at par for checks drawn upon themselves and presented to them for payment by federal reserve banks;

(4) If non-member banks remit at all for checks forwarded to them by federal reserve banks they must remit at par; and

(5) Federal reserve banks are prohibited by law from paying exchange.

The principles mentioned above are definitely established by the decisions in the cases of *American Bank & Trust Co. v. Federal Reserve Bank of Atlanta*, 262 U. S. 643; *Farmers & Merchants Bank v. Federal Reserve Bank of Richmond*, 262 U. S. 649, and *Pascagoula National Bank v. Federal Reserve Bank of Atlanta*, 3 Fed. (2nd) 465, 11 Fed. (2nd) 866, 46 Sup. Ct. 637. Neither the Federal Reserve Board nor the federal reserve banks, therefore, have any option in the matter and cannot permit banks to deduct exchange when remitting for checks presented by federal reserve banks.

The services of the reserve system in connection with what is called the "gold problem" should be mentioned in this same connection, especially as they have seldom been correctly

appraised. At the close of the war we had on hand a substantial national stock of gold, but the post-war years brought immense transfers of the metal to our shores, as foreign countries adopted this mode of settling their obligations and as new production of gold found itself obliged to seek a market where the price was not regulated. The outcome was an increase in gold holdings up to an amount which is now variously estimated as anywhere from \$4,000,000,000 to \$4,500,000,000, or probably about one third of the visible gold supply of the world. This large holding of gold has of late years been held to the extent of almost two thirds in the vaults of the reserve banks. As it has come into the United States, it has been used by the member banks to which it was consigned for the purpose of paying off their obligations to the federal reserve banks of their respective districts. The federal reserve banks have held it as the basis for their outstanding credit. They have thus kept it from entering immediately into circulation and so constituting the foundation for an extended inflation in prices and values as it might have, had the system not been in existence. Whatever may be thought of the discount policy of the reserve system there can be no doubt that in one way or another the gold holdings referred to have been protected from the direct drafts which

would otherwise have been brought to bear on them. Thus an important service to the general object of price stabilization has been rendered.

Underlying this obvious and conspicuous service rendered by the gold settlement and par collection systems, is the equally real but less commonly recognized economy of reserves which the new plan rendered possible. The gold settlement and par clearance systems render it possible to use every unit of specie available in the country as the basis, upon occasion, of grants of credit. This does not necessarily contribute in any way whatever to inflation under proper management of banking resources but it does enable individual institutions to make the most of their funds and to keep them active with as little loss of reserve strength as may be. Figures recently compiled by the Federal Reserve Board show that the average reserves of the United States, taking all member banks, are only about 7.5 per cent. notwithstanding that the reserve strength and general liquidity of the country are undoubtedly far ahead of what they were before the war when the average reserve strength was probably double this figure.

"Toning Up" the Credit System

Attention should also be given to the genuine success the reserve system has had in improving

credit analysis and commercial paper. Many efforts had been made to accomplish some degree of unity in commercial paper usage and some degree of strictness in credit analysis before the war. But the success in either direction had been incomplete and partial. The reserve system has not only introduced various new types of paper which under proper conditions of use are desirable auxiliaries to current methods of financing, as in the case of bankers' acceptances, but it has also contributed largely to uniformity of accounting statements and standardization of credit information. The progress in these particulars has been greater in some districts than in others, but it has been real in all, and it has had an important and directly beneficial effect in "toning up" the entire credit system of the United States. To-day statistical analysis of the credit position of the country can be made with an accuracy previously unknown and as a result the accurate ascertainment of the actual credit position at any time is now practically feasible. This is an improvement in the general credit situation whose importance cannot be ignored, and is much more far-reaching in its significance than any of the more conspicuous and widely known achievements of the system.

The assistance of the federal reserve system to the farming community during the difficult times

through which that community has passed has seldom been properly appraised. Most liberal provision for the discounting of farmers' paper was made in the original Federal Reserve Act. Indeed the Act erred rather upon the side of over-liberality than upon that of niggardliness. The Federal Reserve Board went even further and gave an extremely broad interpretation of the provisions of the law relating to farm paper so that hardly a legitimate productive activity of the farm, giving rise to straightforward commercial paper, could fail of receiving accommodation at the reserve institutions. The banks, particularly those in the producing regions of the country, conceived it to be their duty to render full assistance to the farmer and, as was shown by an actual investigation of the holdings of reserve banks and their members in 1922, the amounts so advanced by members of the system in semi-agricultural and agricultural counties, taking the country as a whole, was certainly not less than \$4,650,000,000 or 24 per cent. of all loans. In 1920, the total estimated amount of farm paper rediscounted by reserve banks themselves was about \$2,000,000,000. In addition to this ordinary or direct financing, the reserve banks have been extremely liberal in their discounting of acceptance and other paper, issued for the purpose of enabling farmers and their

associations to carry farm products in warehouses and elevators. Add to this the fact that the reserve banks have at all times given first attention to export paper, including that representing shipments of farm products to other countries, and the invaluable service rendered by these institutions to the farmer and to agricultural enterprise in general can be properly appraised.

Trade Acceptances and Other Services

It is well worth noting that since the war the reserve system has from time to time played an important part in contributing to the rehabilitation and restoration of foreign currency and banking systems. In 1925, the Federal Reserve Board authorized the establishment of a credit by the twelve banks of the reserve system in behalf of the Bank of England which was then engaged in bringing about a return to the gold standard in Great Britain. The system had already contributed to the restoration of affairs in Poland and has since then undertaken to perform a like service in connection with the monetary reform in Belgium. There are other and less well known channels through which reserve banks have placed the fluid funds of the United States at the service of continental countries which could show that they were on the road to greater soundness. One of them was seen in the

authorization of the Board for the purchase of trade acceptances endorsed by German banks at a time when the gradual restoration of sound conditions in Germany was being sought at the conclusion of the inflation period. The system has constantly purchased in our own market sound investments for, and held funds in behalf of, foreign banks. And in addition to all of these valuable services, it has constantly discounted for and bought, from branches and agencies of foreign banks established in the United States, paper representing the movement of goods from those countries to ours and from this to other nations.

In fact, this service of the reserve system has resulted, even in spite of our lack of foreign branches, in greatly reducing the cost of carrying on foreign trade and in facilitating the movement of goods to points of exportation, and from there abroad. The system has not limited itself to paper growing out of our direct trade with other countries, but has expressly taken the position that it will recognize the eligibility of paper growing out of foreign trade between any nations in which American interests are concerned. So in a variety of ways it has tended to facilitate not only our own immediate foreign business but also foreign business of every description. The annual purchases and rediscounts of acceptances

growing out of foreign trade, made by reserve banks, have at times been as high as \$1,700,000,000 or more. As is well known, these acceptances have been purchased at very close figures, the acceptance rate being usually the lowest rate for such paper prevailing anywhere in the world. All this has tended to transfer to the United States a great deal of financing which formerly found its centre in London and in other parts of the world, not merely because the capital could be found in the United States but because there existed here a money market machinery which was available and which could be used at low rates for the purpose of financing the operations involved. This has been recognized all over the world as a contribution to foreign trade finance which has immensely helped in making possible the regular functioning of a foreign trade machinery that had been badly disorganized as a result of the war and the conditions following the struggle, while it has also been accepted by them as an improvement upon the financing plans which had previously obtained.

It would be difficult to enumerate the various achievements of the federal reserve system in any adequate way. It has existed during a period of world reconstruction in which the maintenance of sound or even endurable conditions depended upon having an elastic adaptable banking

system available as a constant reliance. This the reserve system has supplied and its value and success have been found in the fact that in the beginning of its history the system was by its constituent Act, thanks to the protection of the measure from injurious amendment, given a well-modelled and vigorous structure.

SUMMARY OF THINGS DONE FOR BUSINESS BY THE FEDERAL RESERVE SYSTEM

(As Seen by the United States Chamber of
Commerce.)

1. It has given business greater confidence in the ability of the banks to care for credit needs.
2. It has introduced an elastic currency and eliminated money panics.
3. It has eliminated extreme seasonal fluctuations in rates of interest.
4. It has brought business safely through the war and post-war crises.
5. It has saved millions of dollars to business through its par payment system for check collection.
6. It has made the gold reserve more effective as a basis for credit extension in times of extraordinary demand.
7. It has aided in the financing of foreign and

domestic trade by developing a discount market for acceptances.

8. It has provided a means for handling huge financial operations of the government without interference with business.

9. It has aided in the reëstablishment of the gold standard abroad.

10. It has given us an experienced banking organization which will assist us in meeting the future exigencies of business at home and abroad with courage and confidence.

APPENDICES

APPENDIX A
SPEECH OF
HON. CARTER GLASS.

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 22, 1913

The House had under consideration the conference report on the bill (H. R. 7837) to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

MR. GLASS. Mr. Speaker, on the 18th day of last September this House, by a vote of 286 to 85, passed H. R. 7837, known as the currency bill. The conferees on the part of the House to reconcile the differences with the Senate now have the pleasure of reporting the bill back without one single fundamental alteration of its structure.

I had purposed making a detailed explanation of the changes in the bill, but in the limited time remaining I can only indicate to the House just what was done in conference concerning the Senate amendment to the House bill, which was in the nature of a substitute.

ORGANIZATION COMMITTEE

The House bill provided for an organization committee vested with the power of putting the new regional reserve bank system in practical operation, the said committee to be composed of the Secretary of the Treasury, the Secre-

tary of Agriculture, and the Comptroller of the Currency. The Senate altered this provision by eliminating the Secretary of Agriculture and the Comptroller of the Currency and substituting two members of the Federal Reserve Board to be designated by the President. In conference the House provision was restored. The House conferees regarded it as exceedingly important that the Comptroller of the Currency, having intimate knowledge of all the details of banking, should be a member of the organization committee; and also the Secretary of Agriculture, who, at this time, happens to be experienced in economics. Moreover, it was objected that the Senate amendment would indefinitely delay the organization of the system by reason of the fact that the work of organization could not proceed until the President should first designate at least two members of the Federal Reserve Board, which could not intelligently be done until the boundary lines of the various regions could first be established. Thus the alteration by the Senate was regarded by the House conferees as impracticable; and the organization of the system will, consequently, devolve upon the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, as provided originally in the House bill.

FEDERAL RESERVE BOARD

The Senate amendment also eliminated from membership on the Federal Reserve Board the Secretary of Agriculture and the Comptroller of the Currency. This action by the Senate reflected the deliberate opinion of the Democratic Party caucus and apparently represented the unanimous conviction of the caucus and the Senate. The House conferees signified a willingness to yield with respect to the Secretary of Agriculture, but strenuously resisted the

proposition to eliminate the Comptroller of the Currency. The conferees on the part of the Senate long persisted in the determination not to permit this official to hold membership on the Federal Reserve Board, but the House conferees, with equal pertinacity, insisted that the Comptroller of the Currency, already charged by law with the supervision and with a large power of control of the national banks of the country, was by virtue of his official duties peculiarly suited for membership on the board. The House conferees prevailed; so that the Federal Reserve Board will be composed of the Secretary of the Treasury, the Comptroller of the Currency, and five members to be appointed by the President for terms of 10 years each, instead of 6 years, as originally provided in the House bill, and with salaries of \$12,000 per annum, instead of \$10,000 per annum, as provided in the House bill.

NUMBER OF BANKS

Concerning the number of regional reserve banks to be established, the House bill, as you know, provided that there should not be less than 12, leaving subsequent increase in the number of banks to the judgment of the Federal Reserve Board. The Senate amended the bill in that particular so as to provide that the number of banks should not be less than 8 nor more than 12. On that point the House conferees yielded.

VOTING FOR DIRECTORS

In this connection, the House bill provided that the directors of classes A and B of the regional reserve banks—the first class peculiarly representative of the banking interest and the second class representative of the business

community—should be selected from approved lists to be supplied by the stockholding banks. The Senate so amended this provision as to extend the field of choice, permitting the electors to vote for any individual in the regional reserve district. Regarding this as an utterly impracticable, if not interminable, process, the House conferees stood firm and the Senate yielded. The House accepted the Senate modification concerning a preferential ballot, so as to prevent the possibility of a tie vote for directors.

QUALIFICATIONS OF DIRECTORS

Concerning the qualification of directors of regional reserve banks, the House bill provided that directors of class B could not be officers, directors, or employees of member banks. The Senate so amended the provision as to prohibit stockholders of member banks from being directors of class B in the regional reserve banks; but on this point the Senate receded.

CAPITALIZATION

The House bill provided that the capital of the regional reserve banks should be in amount equal to 20 per cent. of the capital of member banks, one-half to be paid in, and the other half subject to call, being in the nature of a double liability. The Senate so altered this provision as to provide that the aggregate capital of a regional reserve bank should be in amount equal to 6 per cent. of the capital and surplus of member banks. The House provision was based upon the theory that a bank's capital stock is less liable to variation than its surplus. Nevertheless, the House yielded on this point, not regarding it as at all vital. Indeed, the aggregate capital under the one provision

will be approximately the same as that provided by the other plan.

EARNINGS

In the matter of distribution of the earnings of the proposed regional reserve bank system there was quite a wide difference in the Senate amendment from the House bill. The House bill, as you will recall, provided a cumulative dividend of 5 per cent. to be paid to the stockholding banks, after which a surplus fund of 20 per cent. was required to be established by the regional reserve banks. The excess earnings above the cumulative 5 per cent. dividend and the 20 per cent. surplus were to be divided between the Government and the stockholding banks in a ratio of 60 per cent. to the Government and 40 per cent. to the banks. The Government's earnings were to be applied to the extinction of the bonded indebtedness of the United States. The Senate so amended this provision as to allow the banks a 6 per cent. cumulative dividend and required the regional reserve banks to provide a surplus of 20 per cent., the entire net earnings in excess of the dividend and surplus to go to the United States Government. However, one-half of the Government's earnings was to constitute a franchise tax and the other half was to be appropriated to an insurance fund for the protection of the individual depositors of national banks.

SO-CALLED DEPOSIT INSURANCE

This Senate amendment was bitterly contested by the House conferees as being a mere pretense of a deposit guaranty. It was, indeed, neither a deposit guaranty nor a potent insurance fund, in the judgment of the conferees on the part of the House. Therefore the House conferees

insisted upon the modification of the Senate amendment by striking out this alleged deposit insurance, but permitting the cumulative dividend to remain at 6 per cent. as fixed by the Senate, the balance of the excess earnings of the system to go to the United States Government. The view of the House conferees was that when we have, if ever we shall have, a deposit guaranty law, the tax should be assessed against the banks; that the banks, in that event, should be required to guarantee their own depositors; and that not a dollar of the funds of the United States Government should be applied to that purpose. [Applause.]

The conferees on the part of the House felt, regardless of the merits of the proposition to insure or guarantee bank deposits, that the incorporation of this Senate amendment here would delay indefinitely, if not defeat, the proposition for a real deposit guaranty law. For this reason the House conferees stood firm and the Senate conferees yielded; so that in the bill as reported back there is no provision for an alleged deposit insurance.

POWERS OF RESERVE BOARD

The powers of the Federal Reserve Board were in some minor particulars and in one or two material aspects altered by the Senate amendment, notably where the House authorized the Federal Reserve Board to compel one Federal reserve bank to rediscount the discounted paper of another Federal reserve bank under certain restrictions. Such authority could only be exercised in time of emergency and only by the affirmative action of five of the seven members of the Federal Reserve Board. The Senate amendment swept away every one of the restrictions imposed by the House bill and vested the Federal Reserve

Board with plenary power to order the rediscount at its pleasure and by a majority vote. The House conferees insisted upon a restoration of the requirement that at least five members of the Federal Reserve Board must concur in the proposed action.

REDISCOUNTS

In the matter of rediscount operations the only material change made by the Senate amendment to the House bill relates to the time limit of certain agricultural credits. This, you will recall, was an item of the bill which provoked considerable controversy in the House Democratic caucus and in the House itself. In the judgment of some of us the difference is more apparent than real, and certainly more political than economic. The House bill, keeping constantly in view the capital purpose of establishing regional reserve banks with quick and liquid assets, promptly and certainly responsive to the commercial, agricultural, and industrial requirements of the country, provided a 90-day maturity for paper subject to discount, making no discrimination whatsoever for or against the merchant, the manufacturer, or the farmer. The Senate amendment, in the case of agricultural credits, extended the period of maturity to six months. The House having reversed itself on this particular proposition and having instructed the House conferees to yield on the Senate amendment, the conferees acquiesced.

In this connection, Mr. Speaker, I wish to say that while the House conferees would have, in any event, implicitly followed the instruction of the House, we did so the more readily in this case from the conviction that sound banking instinct and universal banking experience will take care of the situation presented by this change in the House bill.

In short, we are perfectly confident that those to whom shall be confided the power and responsibility of administering this new banking and currency system will have the wisdom and courage to maintain it in the most efficient state possible.

RESERVES

In dealing with the reserve requirements, the Senate amendment to the House bill somewhat strengthened the reserve by advancing the minimum requirement from $33\frac{1}{3}$ to 40 per cent. of gold or lawful money, prescribing a flat penalty of 1 per cent. on all impairment of the reserve behind the notes between 40 per cent. and $32\frac{1}{2}$ per cent., and authorizing the Federal Reserve Board to assess a graduated tax of $1\frac{1}{2}$ per cent. per annum upon each $2\frac{1}{2}$ per cent. or fraction thereof that such reserve falls below $32\frac{1}{2}$ per cent.

The reserve requirements for individual banks was very materially reduced by the Senate amendment; indeed, it was loosened up to an alarming extent, making inflation dangerously probable. The Senate amendment did not require a dollar of reserve to be kept in the vaults of individual banks, but made it possible for every dollar of the reserve to be kept in the regional reserve banks, thus frustrating the purpose of the House to put a stop to the vicious practice of pyramiding reserves under which the tendency to inflation is always possible and inviting. The House conferees adjusted this point of difference not entirely to their satisfaction, but vastly to the betterment of the provision, so that while the reserve requirements as to individual banks are somewhat less exacting than they were in the House bill they are very much more exacting than they were in the Senate amendment to the House bill.

BOND REFUNDING

The Senate radically altered the bond provision of the House bill. The pivotal point of banking and currency reform in this country around which controversy has raged for a quarter of a century has been the rigid and inelastic nature of a currency based on Government bonds. The demand of the banker, the textbook writer, the business man, and other currency experts has been for the abrogation of the bond-secured currency system and the gradual substitution therefor of a currency based on commercial assets and immediately responsive to business requirements. That has been the universal contention of all persons who have a clear comprehension of the question. It has been the declared policy of the Democratic Party for years, the declaration having appeared in specific terms in three of its recent national platforms. Nevertheless, the Senate in its wisdom radically altered that provision of the House bill so as to make an appreciable retirement of the bond-secured currency unlikely, if not impossible. The House conferees gained a measure of advantage by so modifying the Senate amendment as to make probable the retirement of at least \$300,000,000 of the bond-secured currency within a period of 20 years, and the possible retirement of \$500,000,000 of that currency, to be superseded by elastic Federal reserve currency, based upon a gold reserve and commercial assets, expanding and contracting automatically with the business requirements of the country.

NO CHARGE FOR EXCHANGE

One of the most important provisions of the currency bill passed by this House was that which sought to put an

end to the flagrant abuse involved in excessive charges by banks throughout the country for collections and exchanges. The House bill provided that exchanges should be made at par and that charges for collections should not exceed the actual cost to the banks. This item of the bill, as most of you remember, was bitterly controverted in the Democratic caucus, and also in the House. Naturally thousands of banks deriving large profits from the practice of charging constructive interest upon checks in transit and very arbitrary charges for collections and for exchanges exhibited great distaste to this provision of the bill. They vigorously protested to members against the inclusion of this prohibition, and thus the effort to remove this tax burden upon the business of the country was contested with the utmost pertinacity. However, those of us in the House who sought to tear down these tollgates upon the highways of commerce prevailed. The fight was renewed in the Senate, and that body so modified the House provision as to leave it solely within the discretion of the Federal Reserve Board to diminish or abolish the evil complained of, as it might please. The House conferees declined to yield on this point. They insisted upon such a modification of the Senate amendment as will exact exchanges at par and restrict charges for collections to the actual cost of such transactions to the banks. In brief, as the bill now is reported to the House the banks cannot make exchange and collection charges a source of profit; they cannot any longer charge constructive interest; they cannot exact a tax for a theoretical transfer of funds from point to point when no transfer is actually made, but only an entry on the books. They can no longer harass the commerce of the country nor penalize the business men of the Nation by an unjust tax. While the

House conferees did not succeed in entirely restoring the provision as it left this Chamber, they vastly improved the amendment made by the Senate. The provision, as it stands, will result in an immense saving to the tradespeople of the United States. It will eliminate the amazing wastefulness incident to many independent collection organizations by substituting one compact collection system. It will abolish the exchange charges altogether and appreciably reduce charges against collections. I speak thus confidently only in anticipation of wise action by the Federal Reserve Board when appointed. If the board will have the wisdom and courage to establish immediately a comprehensive and economical plan of bank clearings, it will be difficult to compute the advantages that this section of the currency bill will secure. While some banks will have their profits diminished, it will be profits to which they are not fairly entitled and for the loss of which they will be more than compensated by the better and speedier facilities afforded for the transaction of business.

GOVERNMENT DEPOSITS

In the matter of Government deposits the House bill required that the regional reserve banks should be constituted fiscal agents of the United States Government and required the Secretary of the Treasury to deposit all of the current funds of the Government in these banks, omitting, of course, the Treasury trust funds. The Senate so altered this provision of the House bill as to make it optional with the Secretary of the Treasury to so deposit the Government funds and to place it within the discretion of that official to constitute the regional reserve banks fiscal agents of the United States Government. I have

been unable to get any clear perception of the reason for this alteration of the House bill further than that I a little suspect that it was done for tactical purposes, perhaps to enable the Secretary of the Treasury to combat the schemes of intractable bankers, should there be such. The object of the framers of the House bill in making the provision mandatory instead of discretionary was to furnish the regional reserve banks with the idle funds of the Government as a basis for active business transactions, and at the same time to correct the unscientific and senseless process of withdrawing these funds from business channels and impounding them in the Treasury and sub-treasuries. It is scarcely thinkable that we shall ever have a Secretary of the Treasury who would not so exercise the discretion conferred upon him by the bill, as now reported, as to carry out the real purpose which the House had in view when it made this provision mandatory; hence, the House conferees reluctantly yielded the point about 3 o'clock this morning.

BANK EXAMINATIONS

In the matter of bank examinations some minor alterations were made by the Senate amendment and some technical changes also, which were modified in conference so that there is little practical difference between the Senate amendment and the original House bill. One notable change made by the Senate was an authorization of inquisitorial investigations by committees of the House upon their own initiative; but the House conferees insisted upon so altering this amendment as to permit inquisitorial action by the Senate and House jointly, or by either House acting through a committee directly authorized to exercise inquisitorial powers.

THE NOTE ISSUES

The note provision of the House bill has been bitterly assailed, both in the other branch of Congress and by certain men of large experience and influence in banking. The president of the largest banking institution in the Western Hemisphere went all over the country recently, charging that the Federal reserve notes provided by the House bill and by the Senate amendment to the House bill, substantially now reported from the conference committee, constitute "fiat money." This charge was vehemently echoed, without investigation or reflection, as I am obliged to believe, in the other branch of Congress. Mr. Speaker, the characterization is not only inaccurate, is not only untrue, is not only amazing, but is positively wanton.

I have said in speeches elsewhere what I shall now repeat here. There is not in this country and there has never been in any country of the civilized world a government issue or a bank-note issue comparable in security to the Federal reserve notes provided by the bill which you are now asked to enact into law. [Applause.]

NOT AN ELEMENT OF FIATISM¹

Fiat money! Why, sir, never since the world began was there such a perversion of terms; and a month ago I stood before a brilliant audience of 700 bankers and business men in New York City, and there challenged the president of the National City Bank to name a single lexicographer on the face of the earth to whom he might appeal to justify his characterization of these notes. I twitted him with the fact that not 1 per cent. of the intelligent bankers of

¹Fiat money: Paper currency of government issue, which is made legal tender by fiat or law, does not represent, or is not based upon, specie, and contains no promise of redemption.—*Webster's New International Dictionary*.

America could be induced to agree with his definition of these notes, and asked him to name a single financial writer of the metropolitan press of his own town, to whom he might confidently appeal to justify his absurd charge. "Fiat money" is an irredeemable paper money with no specie basis, with no gold reserve, but the value of which depends solely upon the taxing power of the Government emitting it. This Federal reserve note has 40 per cent. gold reserve behind it; has 100 per cent. short-term, gilt-edge commercial paper behind it, which must pass the scrutiny, first, of the individual bank, next of the regional reserve bank, and finally of the Federal Reserve Board. In addition to this, it constitutes a first and paramount lien on all the assets of the regional reserve bank, including the double liability of the member banks; and, superadded to this, it has behind it the taxing power, the credit, and the honor of a Nation of 95,000,000 of free people. There is not a semblance of fiatism about these notes; and at the very moment that Mr. Vanderlip, of the National City Bank of New York, was in Chicago recklessly characterizing these notes as "fiat"—meaning without sufficient security—Paul M. Warburg, perhaps the greatest international banker in America, was here in Washington protesting to me that the security behind the notes was entirely too exacting!

Mr. Vanderlip misses the mark a mile, while Mr. Warburg is not far from being right; but we have thought it better to err on the side of prudence rather than incur the risks of insecurity.

DANGEROUS TALK

No man with the prestige or influence which identification with one of the greatest banking institutions in the

world gives him should fail to appreciate the importance of his public utterances. He should not fail to understand that his responsibility to society transcends that of a mere individual; and I predict with great confidence that when the president of the National City Bank of New York comes to realize how inconsiderate was his characterization of these Federal reserve notes, as well as how dangerous, he will regret ever having given utterance to such an ill-conceived opinion. When the institution which he heads shall have become a part of and a factor in the system which this bill provides Mr. Vanderlip will be ashamed to remember that he made such a bitter and utterly unfair assault on the measure.

And, Mr. Speaker, if this be true of a great bank officer, with a manifest self-interest at stake, with how much greater force may this reproach for a like offense be directed at a Member of Congress of the United States, with only his country to serve. I said awhile ago that this charge of "fiatism" was vehemently echoed in the other branch of Congress. It could not have been frankly done upon an intelligent analysis of the provisions of the bill, and it should not have been done without such an examination. But the criticism was made with such fervor and such absence of qualification as to make the charge especially alarming to foreign investors in American securities. Indeed, it was made in such rank fashion as to put in jeopardy abroad the credit of our entire banking and currency system as proposed in this measure.

I desire here to enter indignant protest against such criticism. The constitutional duty of a Congressman to warn his country of perils which he may foresee is not greater than the moral obligation to sound no false alarm. And, in either event, the obligation assumes the nature

of a grave responsibility when the Congressman speaking adds to the reputation of a great lawyer the fame of an international statesman. No man of this type, with such responsibilities, should for party advantage or for any purpose trifle with the credit of his country, either at home or abroad.

AS TO INFLATION

This bill, in its House form, has likewise been subjected to the criticism of providing a wide range of "inflation." On this point I have been more amused than exasperated, because the startling inconsistencies of the critics have been simply ludicrous. On the very day that Mr. Forgan, a great banker, was asserting before the Senate committee that the bill "immensely contracted commercial credits," his fellow townsman, Mr. Dawes, ex-Comptroller of the Currency, was proclaiming out West that the bill "enormously inflated commercial credits." Surely it could not do both things at the same time; nor will it ever do either at any time. It will afford a large expansion of credits, when needed, upon a perfectly sound basis and insure certain contraction of credits at the end of legitimate commercial transactions. This was what it was designed to do, and without the power to do which the bill would be manifestly deficient.

This charge of "inflation," like the criticism in regard to the "fiat" nature of the notes, was echoed in the Senate; and yet the bill came back from the Senate with the possibilities of inflation vastly increased. The only thing done in the other body to diminish the possibilities of over-expansion was slightly to increase the gold reserve; but at the same time the bill was so amended in the other body as to permit the banks to count the Federal reserve notes as reserve; the reserve requirements were appreciably re-

duced; banks were accorded the dangerous privilege of unrestricted "acceptances," and other things were done that made the bill, for the first time, amenable to the charge that it provided "inflation."

But the House conferees insisted upon a restoration of safeguards. As the bill now stands we have provided against inflation in almost every conceivable way—by the requirement of a substantial gold reserve; by the requirement of a secondary reserve of short-time commercial paper; by restricting the power of the reserve board to issue notes except upon application from the banks; by the interposition of banking instinct and experience applied in a threefold degree—that is to say, banking discretion is applied in the original discount operation of the individual bank; banking discretion is applied in the rediscount operation of the regional reserve bank; banking discretion is applied when the Federal Reserve Board passes upon the application of the regional reserve bank for additional currency. Thus inflation is held in check, first, by the limited supply of gold; second, by the limited amount of short-time commercial paper; third, by the banking discretion of the individual bank; fourth, by the banking discretion of the regional reserve bank; fifth, by the banking discretion of the Federal Reserve Board, with a broad view of conditions not in a single district, but throughout the entire country.

CHANGES SUMMARIZED

Without desiring to prolong this review of the questions discussed and determined by the Senate and House conferees, I may briefly summarize them as follows:

1. The House conferees restored the Secretary of Agriculture and Comptroller of the Currency to the organization committee.

2. The House conferees restored the Comptroller of the Currency to the Federal Reserve Board, giving the President power to appoint five members with 10-year terms instead of six with 6-year terms.

3. The House conferees struck out the provision from the Senate bill authorizing domestic acceptances.

4. The House conferees threw out the so-called "insurance of deposits" provision.

5. The House conferees threw out the Senate provision permitting Federal reserve notes to be used as reserves in the individual banks.

6. The House inserted a provision requiring that the net earnings going to the Government should be applied to the gold redemption fund or to the reduction of the bonded indebtedness of the United States.

7. The House inserted a provision requiring that branch banks shall be operated by a board of seven directors, having the same qualifications as directors of the Federal reserve banks, four to be appointed by the parent bank and three by the Federal Reserve Board.

8. The House altered the Senate reserve features so as to extend the transition period from two to three years, as was provided in the House bill.

9. The House so altered the Senate reserve provision as to require that at least one-third of the reserves of country banks should be held in the vaults of the local banks, whereas the Senate provision permitted all the reserves to be held in the vaults of the reserve bank.

10. The House conferees practically restored the collection at par of checks and exchanges.

11. A new section on bank examinations was written, omitting some of the objectionable provisions put in by the Senate.

12. The House conferees so amended the Senate bond provision as to require the retirement over a period of 20 years of about \$300,000,000 of the bond-secured national-bank notes, whereas the Senate amendment did not provide for the retirement of more than \$125,000,000.

13. The House conferees threw out the provision prohibiting directors of the Federal reserve banks, class C, from being stockholders of any bank, and practically restored the House provision requiring directors of this class to be selected from a list supplied by the Federal reserve bank.

14. The House conferees practically restored the House restrictions in the matter of requiring one Federal reserve bank to rediscount for another Federal reserve bank.

15. The House conferees limited the denominations of the notes to be issued to \$5 minimum, striking out the \$1 and \$2 provision of the Senate, which, it was contended, would cause inflation.

16. The Senate provision fixing a number of banks at not less than 8 or more than 12 stands, as against the House provision making the number not less than 12.

17. There was a compromise on the minimum capital, the Senate bill requiring \$3,000,000 and the House bill \$5,000,000. The capital was finally fixed to \$4,000,000.

18. The Senate provision striking the Secretary of Agriculture off the Federal Reserve Board stands.

19. The Senate method of balloting for directors was retained.

20. The Senate increase of gold reserve behind the note issues to 40 per cent., with a graduated tax for falling below that amount, stands.

21. The method of raising the capital of the Federal reserve banks on capital and surplus of member banks in-

stead of on capital alone was retained in the Senate amendment.

22. The Senate increase of salaries of members of the Federal Reserve Board from \$10,000 to \$12,000 is retained, as is the alteration in the term of service from 6 to 10 years.

23. There were several hundred alterations of the text of the Senate amendment.

ESSENTIALLY THE HOUSE BILL

There are, Mr. Speaker, many minor alterations in the text of the House bill, but there is none in its essential features. There also are many changes in the details of the Senate amendment, and in matters of phraseology there are numerous alterations of both the House bill and the Senate amendment. But, in the last analysis, the measure here presented as the conference report upon the disagreeing votes of the two Houses is in all fundamental respects the House currency bill. The report is presented with the confident hope and expectation that it will be adopted and that Congress will have thus written upon the statute books legislation that has been sorely needed and insistently demanded by the banking and business interests of the country for many years.

APPENDIX B

FEDERAL RESERVE ACT

(APPROVED DECEMBER 23, 1913)

As amended Aug. 4, 1914 (38 Stat., 682, Chap. 225); Aug. 15, 1914 (38 Stat., 691, Chap. 252); Mar. 3, 1915 (38 Stat., 958, Chap. 93); Sept. 7, 1916 (39 Stat., 752, Chap. 461); June 21, 1917 (40 Stat., 232, Chap. 32); Sept. 26, 1918; Mar. 3, 1919; Sept. 17, 1919; Dec. 24, 1919; Apr. 13, 1920.

An Act To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve

district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS

SEC. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which

shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part under the provisions of this Act.

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid,

shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it,

offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than \$25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than \$4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve

cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES

As amended by act approved June 21, 1917 (40 Stat., 232, chap. 32).

SEC. 3. The Federal Reserve Board may permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board

FEDERAL RESERVE BANKS

As amended by act approved June 21, 1917 (40 Stat., 232, chap. 32); act approved September 26, 1918.

SEC. 4. When the organization committee shall have established Federal reserve districts as provided in sec-

tion two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve

bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental

powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth.¹ Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as

¹See section 18. Also sec. 5 of act approved Apr. 23, 1918, authorizing issuance of Federal Reserve Bank notes in any denominations (including \$1 and \$2) against security of United States certificates of indebtedness, or of United States one-year gold notes.

may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stockholding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and class B shall be chosen in the following manner:

The Federal Reserve Board shall classify the member banks of the district into three general groups or divi-

sions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal reserve bank of the district one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the elections of class A and class B directors.

Within fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the chairman his first, second, and other choices for director of class A and class B, respectively, upon a preferential ballot upon a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each such officer shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate. No officer or director of a member bank shall be eligible to serve as a class A director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director.

Any person who is an officer or director of more than one member bank shall not be eligible for nomination as a class A director except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is an officer or director.

Any candidate having a majority of all votes cast in

the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain, under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the

board when necessary. In case of the absence of the chairman and deputy chairman, the third-class C director shall preside at meetings of the board.

Subject to the approval of the Federal Reserve Board the Federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability. The Federal Reserve Board shall require such bonds of the assistant Federal reserve agents as it may deem necessary for the protection of the United States. Assistants to the Federal reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the Federal reserve agent.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers, or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B, and C, respectively, to designate one of the

members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL

SEC. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital

stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be cancelled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

SEC. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be cancelled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital

stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS

As amended by act approved March 3, 1919.

SEC. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December thirty-first, nineteen hundred and eighteen, shall be paid into a surplus fund until it shall amount to one hundred per centum of the subscribed capital stock of such bank, and that thereafter ten per centum of such net earnings shall be paid into the surplus.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the

property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

SEC. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

Provided, however, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the con-

version, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS

As amended by act approved June 21, 1917. (40 Stat., 232, chap. 32.)

SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.

In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and

whether or not the corporate powers exercised are consistent with the purposes of this act.

Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board, and stock issued to it shall be held subject to the provisions of this act.

All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relates to the payment of unearned dividends. Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes, and shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of \$100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit or otherwise.

As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board.

Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: *Provided, however,* That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, shall be assessed against and paid by the banks examined.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided, however,* That no Federal reserve bank shall, except under express authority of the Federal Reserve Board, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stockhold-

ings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national-bank act.

Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this act.¹ Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks; *Provided, however,* That no

¹Amending section 21 of this act.

Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section.¹ The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture of its membership in the Federal Reserve System upon hearing by the Federal Reserve Board.

¹Amended by section 11 (m), as amended March 3, 1919. See post, p. 262.

FEDERAL RESERVE BOARD

As amended by act approved Mar. 3, 1919.

SEC. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members *ex officio*, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial, and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as *aforesaid* shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly together with actual necessary travelling expenses, and the Comptroller of the Currency, as *ex officio* member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said board.

The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full

term for which he was appointed. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a

member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation

of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

As amended by act approved Sept. 7, 1916 (39 Stat., 752, chap. 461); act approved Sept. 26, 1918; act approved Mar. 3, 1919.

SEC. 11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature, and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve

requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officers or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money, or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act.

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records

showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this Act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.

No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

National banks in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement.

National banks shall have power to execute such bond when so required by the laws of the State.

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: *Provided*, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

(1) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members

of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

(m) Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or endorsement of any one borrower in excess of the amount permitted by section nine and section thirteen of this Act, but in no case to exceed twenty per centum of the member bank's capital and surplus: *Provided, however*, That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United States issued since April twenty-fourth, nineteen hundred and seventeen, or certificates of indebtedness of the United States: *Provided further*, That the provisions of this subsection (m) shall not be operative after December thirty-first, nineteen hundred and twenty.

FEDERAL ADVISORY COUNCIL

SEC. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council,

who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS

As amended by act approved Mar. 3, 1915 (38 Stat., 958, chap. 93); act approved Sept. 7, 1916 (39 Stat., 752, chap. 461); act approved June 21, 1917 (40 Stat., 232, chap. 32).

SEC. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States,¹

¹Under authority of War Finance Act, approved Apr. 5, 1918, as amended by act of Mar. 3, 1919, may receive deposits from War Finance Corporation.

deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided*, further, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial,

or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.¹ Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.²

Any Federal reserve bank may discount acceptances

¹Or bonds of the War Finance Corporation.

²Amended by section 11 (m), as amended March 3, 1919. See ante, p. 367.

of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however,* That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided further,* That the aggregate of acceptances growing out of domestic transactions shall in no event

exceed fifty per centum of such capital stock and surplus.

Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States.¹

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: "No national banking association shall at any time be indebted, or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

Sixth. Liabilities incurred under the provisions of the War Finance Corporation Act.²

¹Or by bonds of War Finance Corporation.

²This sub-paragraph and the one following were added to section 5202, Revised Statutes, by the War Finance Corporation Act, approved Apr. 5, 1918, and by the act of Oct. 22, 1919, respectively.

Seventh. Liabilities created by the indorsement of accepted bills of exchange payable abroad actually owned by the indorsing bank and discounted at home or abroad.

The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, life, or other insurance company authorized by the authorities of the State in which said bank is located to do business in said State, by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located, receiving for such services a reasonable fee or commission: *Provided, however,* That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued through its agency by its principal: *And provided further,* That the bank shall not guarantee the truth of any state-

ment made by an assured in filing his application for insurance.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Federal Reserve Board: *Provided, however,* That no member bank shall accept such drafts or bills of exchange referred to this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further,* That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

OPEN-MARKET OPERATIONS

As amended by act approved Sept. 7, 1916 (39 Stat., 752, chap. 461); act approved June 21, 1917 (40 Stat., 232, chap. 32); act approved Apr. 13, 1920.

SEC. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers'

acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscout, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business and which, subject to the approval, review, and determination of the Federal Reserve Board, may be graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the Federal reserve bank to the borrowing bank.

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board.

GOVERNMENT DEPOSITS

SEC. 15.¹ The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal

¹This section in effect amended by Appropriation Act of 1920, approved May 29, 1920.

reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States,¹ and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act:² *Provided, however,* That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES

As amended by act approved Sept. 7, 1916 (39 Stat., 752, chap. 461); act approved June 21, 1917 (40 Stat., 232, chap. 32). Act approved Sept. 26, 1918.

SEC. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the

¹Under War Finance Corporation Act, approved Apr. 5, 1918, as amended by Act of Mar. 3, 1919, Federal Reserve Banks may also act as fiscal agents of the War Finance Corporation.

²Under section 7 of the act approved Apr. 24, 1917, section 8 of the act approved Sept. 24, 1917, and section 8 of the act approved Apr. 4, 1918, the proceeds of sale of Liberty bonds of the first, second, and third issues may be deposited in nonmember banks. The act of May 18, 1916, amending the Postal Savings Act, authorizes the deposit of postal savings funds in nonmember banks.

Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section thirteen of this act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section fourteen of this act, or bankers' acceptances purchased under the provisions of said section fourteen, or gold or gold certificates; but in no event shall such collateral security, whether gold, gold certificates, or eligible paper, be less than the amount of Federal reserve notes applied for.¹ The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve

¹Under section 13 of War Finance Corporation Act, approved Apr. 5, 1918, notes secured by War Finance Corporation bonds may be used to the same extent, as collateral, as notes secured by United States bonds. *

notes in actual circulation: *Provided, however,* That when the Federal reserve agent holds gold or gold certificates as collateral for Federal reserve notes issued to the bank such gold or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its Federal reserve notes in actual circulation. Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued or, upon direction of such Federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the

Treasurer otherwise than for redemption may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of gold or gold certificates held by the Federal reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal reserve notes less the amount of gold or gold certificates held by the Federal reserve agent as collateral security. Federal reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under

section eighteen of this act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing with the Federal reserve agent its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit to the Treasurer of the United States so much of the gold held by him as collateral security for Federal reserve notes as may be required for the exclusive purpose of the redemption of such Federal reserve notes, but such gold when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal reserve agent.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back

the collateral deposited with the Federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against Federal reserve notes which have been retired. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue.

All Federal reserve notes and all gold, gold certificates, and lawful money issued to or deposited with any Federal reserve agent under the provisions of the Federal reserve act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold or gold certificates with the Federal Reserve Board, to be held by such board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100, \$500, \$1000, \$5000, \$10,000 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act

and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, and pieces, and so forth, and regulations relating to such examination of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of

this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however,* That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin or of gold certificates with the Treasurer or any assistant treasurer of the United States when tendered by any Federal reserve bank or Federal reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal reserve bank or Federal reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any assistant treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold coin or gold certificates on the order of the Federal Reserve Board to any Federal reserve bank or Federal reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal reserve bank or such Federal reserve agent: *Provided, however,* That any expense incurred in shipping gold to or from the Treasury or subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the Federal reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid

by the Federal Reserve Board and included in its assessments against the several Federal reserve banks.

Gold deposits standing to the credit of any Federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal reserve notes, or as a part of the reserve it is required to maintain against deposits.

Nothing in this section shall be construed as amending section six of the act of March fourteenth, nineteen hundred, as amended by the acts of March fourth, nineteen hundred and seven, March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those acts.

As amended by act approved June 21, 1917 (40 Stat., 232, chap. 32).

SEC. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed.

REFUNDING BONDS

SEC. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

Provided further, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price

of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be cancelled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited.¹ Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circula-

¹Under act of Apr. 23, 1918, Federal reserve banks may issue Federal reserve bank notes in any denominations, including \$1 and \$2, against the security of United States certificates of indebtedness to the extent permitted by that act.

tion privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest

payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES

As amended by act approved Aug. 15, 1914 (38 Stat., 691, chap. 252); act approved June 21, 1917 (40 Stat., 232, chap. 32); act approved Sept. 26, 1918.

SEC. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.¹

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of

¹Government deposits other than postal savings-deposits are not subject to reserve requirements.

its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however,* That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraph (a) hereof.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however,* That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof.

No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting

existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

In estimating the balances required by this Act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.

SEC. 20. So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

BANK EXAMINATIONS

SEC. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank¹ at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank, and and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal re-

¹Except banks admitted to membership in the system under authority of section 9 of this act. See section 9 of this act as amended by act approved June 21, 1917.

serve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

As amended by act approved June 21, 1917 (40 Stat., 232, chap. 32); act approved Sept. 26, 1918.

SEC. 22. (a) No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee, violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given.

Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned one year or fined not more than \$5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as a national bank examiner.

(b) No national bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any bank examiner violating the provisions of this subsection shall be imprisoned not more than one year or fined not more than \$5,000, or both.

(c) Except as herein provided, any officer, director, employee, or attorney of a member bank who stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation, any loan from or the purchase or discount of any paper, note, draft, check, or bill of exchange by such member bank shall be deemed

guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than \$5,000, or both.

(d) Any member bank may contract for, or purchase from, any of its directors or from any firm of which any of its directors is a member, any securities or other property, when (and not otherwise) such purchase is made in the regular course of business upon terms not less favorable to the bank than those offered to others, or when such purchase is authorized by a majority of the board of directors not interested in the sale of such securities or property, such authority to be evidenced by the affirmative vote or written assent of such directors: *Provided, however,* That when any director, or firm of which any director is a member, acting for or on behalf of others, sells securities or other property to a member bank, the Federal Reserve Board by regulation may, in any or all cases, require a full disclosure to be made, on forms to be prescribed by it, of all commissions or other considerations received, and whenever such director or firm, acting in his or its own behalf, sells securities or other property to the bank the Federal Reserve Board, by regulation, may require a full disclosure of all profit realized from such sale.

Any member bank may sell securities or other property to any of its directors, or to a firm of which any of its directors is a member, in the regular course of business on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority of the board of directors of a member bank to be evidenced by their affirmative vote or written assent: *Provided, however,* That nothing in this subsection contained shall be construed as authorizing member banks to purchase or sell securities or other prop-

erty which such banks are not otherwise authorized by law to purchase or sell.

(e) No member bank shall pay to any director, officer, attorney, or employee a greater rate of interest on the deposits of such director, officer, attorney, or employee than that paid to other depositors on similar deposits with such member bank.

(f) If the directors or officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this section or regulations of the board made under authority thereof, every director and officer participating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation.

SEC. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

LOANS ON FARM LANDS

As amended by act approved Sept. 7, 1916 (39 Stat., 752, chap. 461).

SEC. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES

As amended by act approved Sept. 7, 1916 (39 Stat., 752, chap. 461); act approved Sept. 17, 1919.

SEC. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

Until January 1, 1921, any national banking association, without regard to the amount of its capital and surplus, may file application with the Federal Reserve Board for permission, upon such conditions and under such regulations as may be prescribed by said board, to invest an amount not exceeding in the aggregate five per centum of its paid-in capital and surplus in the stock of one or more corporations chartered or incorporated under the laws of the United States or of any State thereof and

regardless of its location, principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares, or merchandise from the United States or any of its dependencies or insular possessions to any foreign country: *Provided, however,* That in no event shall the total investments authorized by this section by any one national bank exceed ten per centum of its capital and surplus.

Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking or financial operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described above shall be required to furnish information concerning the condition of such banks or corporations to the Federal Reserve Board upon demand, and the Federal Reserve Board may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Federal Reserve Board to restrict its operations or conduct its

business in such manner or under such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Federal Reserve Board shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpoena witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Federal Reserve Board, such national banks may be required to dispose of stock holdings in the said corporation upon reasonable notice.

Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

Any director or other officer, agent, or employee of any member bank may, with the approval of the Federal Reserve Board, be a director or other officer, agent, or employee of any such bank or corporation above mentioned in the capital stock of which such member bank shall have invested as hereinbefore provided, without being subject to the provisions of section eight of the Act approved October fifteenth, nineteen hundred and fourteen, entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes."¹

¹The Clayton Act.

BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN
BANKING BUSINESS

Added by Act of Dec. 24, 1919.

SEC. 25 (a). Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required by the Secretary of the Treasury as fiscal agents of the United States may be formed by any number of natural persons, not less in any case than five.

Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Federal Reserve Board and shall be filed and preserved in its office. The persons signing the said articles of association shall under their hands, make an organization certificate which shall specifically state:

First. The name assumed by such corporation, which shall be subject to the approval of the Federal Reserve Board.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which the same shall be divided.

Fifth. The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation to avail themselves of the advantages of this section.

The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the Federal Reserve Board has approved the same and issued a permit to begin business, the association shall become and be a body corporate, and as such and in the name designated therein shall have power to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors, all of whom shall be citizens of the United States; and, by its board of directors, to appoint

such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Federal Reserve Board regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

Each corporation so organized shall have power, under such rules and regulations as the Federal Reserve Board may prescribe:

(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell, with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Federal Reserve Board may prescribe, but in no event having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for

the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Federal Reserve Board, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Federal Reserve Board, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Federal Reserve Board may prescribe, but in no event less than ten per centum of its deposits.

(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the Federal Reserve Board and under such rules and regulations as it may prescribe, including countries or dependencies not specified in the original organization certificate.

(c) With the consent of the Federal Reserve Board to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency, or insular possession of the United States but not engaged in the general

business of buying or selling goods, wares, merchandise, or commodities in the United States, and not transacting any business in the United States except such as in the judgment of the Federal Reserve Board may be incidental to its international or foreign business: *Provided, however,* That, except with the approval of the Federal Reserve Board, no corporation organized hereunder shall invest in any one corporation an amount in excess of ten per centum of its own capital and surplus, except in a corporation engaged in the business of banking, when fifteen per centum of its capital and surplus may be so invested: *Provided further,* That no corporation organized hereunder shall purchase, own, or hold stock or certificates of ownership in any other corporation organized hereunder or under the laws of any State which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing corporation.

Nothing contained herein shall prevent corporations organized hereunder from purchasing and holding stock in any corporation where such purchase shall be necessary to prevent a loss upon a debt previously contracted in good faith; and stock so purchased or acquired in corporations organized under this section shall within six months from such purchase be sold or disposed of at public or private sale unless the time to so dispose of same is extended by the Federal Reserve Board.

No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Federal Reserve Board, shall be incidental to its international or foreign business: *And provided further,* That except such as is incidental and preliminary to its organization no such

corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Federal Reserve Board to commence business as a corporation organized under the provisions of this section.

No corporation organized under this section shall engage in commerce or trade in commodities except as specifically provided in this section, nor shall it either directly or indirectly control or fix or attempt to control or fix the price of any such commodities. The charter of any corporation violating this provision shall be subject to forfeiture in the manner hereinafter provided in this section. It shall be unlawful for any director, officer, agent, or employee of any such corporation to use or to conspire to use the credit, the funds, or the power of the corporation to fix or control the price of any such commodities, and any such person violating this provision shall be liable to a fine of not less than \$1,000 and not exceeding \$5,000 or imprisonment not less than one year and not exceeding five years, or both, in the discretion of the court.

No corporation shall be organized under the provisions of this section with a capital stock of less than \$2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in. The capital stock of any such corporation may be increased at any time, with the approval of the Federal Reserve Board, by a vote of two-thirds of its shareholders or by unanimous consent

in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval; and may be reduced in like manner, provided that in no event shall it be less than \$2,000,000. No corporation, except as herein provided, shall during the time it shall continue its operations withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed ten per centum of the subscribing bank's capital and surplus.

A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States. The provisions of section 8 of the act approved October 15, 1914, entitled "An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," as amended by the acts of May 15, 1916, and September 7, 1916, shall be construed to apply to the directors, other officers, agents, or employees of corporations organized under the provisions of this section: *Provided, however,* That nothing herein contained shall (1) prohibit any director or other officer, agent or employee of any member bank, who has procured the approval of the Federal

Reserve Board from serving at the same time as a director or other officer, agent or employee of any corporation organized under the provisions of this section in whose capital stock such member bank shall have invested; or (2) prohibit any director or other officer, agent, or employee of any corporation organized under the provisions of this section, who has procured the approval of the Federal Reserve Board, from serving at the same time as a director or other officer, agent, or employee of any other corporation in whose capital stock such first-mentioned corporation shall have invested under the provisions of this section.

No member of the Federal Reserve Board shall be an officer or director of any corporation organized under the provisions of this section, or of any corporation engaged in similar business organized under the laws of any State, nor hold stock in any such corporation, and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement.

Shareholders in any corporation organized under the provisions of this section shall be liable for the amount of their unpaid stock subscriptions. No such corporation shall become a member of any Federal reserve bank.

Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose

in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Federal Reserve Board or the Attorney General. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders, or officers for any liability or penalty previously incurred.

Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

Whenever the Federal Reserve Board shall become satisfied of the insolvency of any such corporation, it may appoint a receiver who shall take possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States: *Provided, however,* That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to

the Federal Reserve Board. Every such corporation shall make reports to the Federal Reserve Board at such times and in such form as it may require; and shall be subject to examination once a year and at such other times as may be deemed necessary by the Federal Reserve Board by examiners appointed by the Federal Reserve Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Federal Reserve Board and to be paid by the corporation examined.

The directors of any corporation organized under the provisions of this section may, semiannually, declare a dividend of so much of the net profits of the corporation as they shall judge expedient; but each corporation shall, before the declaration of a dividend, carry one-tenth of its net profits of the preceding half year to its surplus fund until the same shall amount to twenty per centum of its capital stock.

Any corporation organized under the provisions of this section shall be subject to tax by the State within which its home office is located in the same manner and to the same extent as other corporations organized under the laws of that State which are transacting a similar character of business. The shares of stock in such corporation shall also be subject to tax as the personal property of the owners or holders thereof in the same manner and to the same extent as the shares of stock in similar State corporations.

Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Federal Reserve Board for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certi-

fied approval of the Federal Reserve Board such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited by some violation of law.

Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States, and having an unimpaired capital sufficient to entitle it to become a corporation under the provisions of this section may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the Federal Reserve Board, be converted into a Federal corporation of the kind authorized by this section with any name approved by the Federal Reserve Board: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of at least two-thirds of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a Federal corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a Federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected

or appointed in accordance with the provisions of this section. When the Federal Reserve Board has given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder.

Every officer, director, clerk, employee, or agent of any corporation organized under this section who embezzles, abstracts, or willfully misapplies any of the moneys, funds, credits, securities, evidences of indebtedness or assets of any character of such corporation; or who, without authority from the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, debenture, draft, bill of exchange, mortgage, judgment, or decree; or who makes any false entry in any book, report, or statement of such corporation with intent, in either case, to injure or defraud such corporation or any other company, body politic or corporate, or any individual person, or to deceive any officer of such corporation, the Federal Reserve Board, or any agent or examiner appointed to examine the affairs of any such corporation; and every receiver of any such corporation and every clerk or employee of such receiver who shall embezzle, abstract, or willfully misapply or wrongfully convert to his own use any moneys, funds, credits, or assets of any character which may come into his possession or under his control in the execution of his trust or the performance of the duties of his employment; and every such receiver or clerk or employee of such receiver who shall, with intent to injure or defraud any person, body politic or corporate, or to deceive or mislead the

Federal Reserve Board, or any agent or examiner appointed to examine the affairs of such receiver, shall make any false entry in any book, report, or record of any matter connected with the duties of such receiver; and every person who with like intent aids or abets any officer, director, clerk, employee, or agent of any corporation organized under this section, or receiver or clerk or employee of such receiver as aforesaid in any violation of this section, shall upon conviction thereof be imprisoned for not less than two years nor more than ten years, and may also be fined not more than \$5,000, in the discretion of the court.

Whoever being connected in any capacity with any corporation organized under this section represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect of any act or omission of the corporation, shall be punished by a fine of not more than \$10,000 and by imprisonment for not more than five years.

SEC. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: *Provided*, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may, for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last

referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

As amended by act approved Aug. 4, 1914 (38 Stat., 682, chap. 225).

SEC. 27. The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reënacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however,* That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached,

and thereafter such tax of six per centum per annum upon the average amount of such notes: *Provided further*, That whenever in his judgment he may deem it desirable, the Secretary of the Treasury shall have power to suspend the limitations imposed by section one and section three of the Act referred to in this section, which prescribe that such additional circulation secured otherwise than by bonds of the United States shall be issued only to National banks having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of the capital stock of such banks, and to suspend also the conditions and limitations of section five of said Act except that no bank shall be permitted to issue circulating notes in excess of one hundred and twenty-five per centum of its unimpaired capital and surplus. He shall require each bank and currency association to maintain on deposit in the Treasury of the United States a sum in gold sufficient in his judgment for the redemption of such notes, but in no event less than five per centum. He may permit National banks, during the period for which such provisions are suspended, to issue additional circulation under the terms and conditions of the Act referred to as herein amended: *Provided further*, That the Secretary of the Treasury, in his discretion, is further authorized to extend the benefits of this Act to all qualified State banks and trust companies, which have joined the Federal reserve system, or which may contract to join within fifteen days after the passage of this Act.

SEC. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reënacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not

below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

SEC. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

SEC. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

THE END

INDEX

- Abbot, Dr. [*Outlook*], describes debate on Glass currency bill, 169.
- Academy of Political Science, debate on Glass currency bill, 176; Senator Aldrich's address attacking the federal reserve bill, 243 *et seq.*
- Aldrich, Senator Nelson W., denounces federal reserve system, 242 *et seq.*; his predictions have not materialized, 248.
- Aldrich Monetary Commission, reports a central-bank bill, 67.
- Aldrich plan, is favoured by House, 30; is rejected by National Democratic Convention, 71; is rejected by the Progressive Convention, 72; is not considered by the Congressional subcommittee on currency reform, 85; is not the foundation of the federal reserve system, 239, 241, 248.
- American Bank & Trust Co. v. Federal Reserve Bank of Atlanta, determines status of par clearance, 305.
- American Bankers' Association attacks currency bill, 164, 166; resemblance of its bank device to Federal Reserve Act, 240.
- Ashurst, Senator Henry F., accuses Senate conferees of "capitulating to the House," 219.
- Atlanta Reserve Bank, expands credits in 1920, 288.
- Bank of England, receives credit from federal reserve banks, 310.
- Belgium, receives assistance from federal reserve system, 310.
- Bristow, Senator Joseph L., accuses McAdoo and others of making legislative decisions, 203; Senate conferee on currency bill, 214.
- Brown, William G., member of House Banking and Currency Committee, 97.
- Bryan, Secretary William J., is opposed to bank representation on Federal Reserve Board, 112; favours government issue, 123; is reported as opposed to federal reserve bill, 133; his letter in support of federal reserve bill, 138; his statement on federal reserve bill, 142; opposes revival of silver issue, 146.
- Bulkley, R. J., member of House Banking and Currency Committee, 97; favours bank representation on Federal Reserve Board, 114; defends federal reserve bill, 140; debates on Glass currency bill, 176, 177.
- Byrnes, James F., declines service on House Banking and Currency Committee, 98.
- Chicago Reserve Bank, expands credits in 1920, 288.
- Clark, Champ, his aid in federal reserve legislation, 131; enjoys the currency bill battle, 143.
- Consolidationists, attempt to limit regional banks to three, 255; Federal Reserve Board considers elimination of four regional banks, 257.
- Crawford, Senate conferee on currency bill, 214.
- Currency reform, is rendered necessary because of an inelastic currency and a fictitious reserve system, 60; Vreeland-Aldrich Act an emergency measure, 64; federal reserve legislation made possible by Wilson's election, 73; Wilson pleads for scientific solution of the problem, 80; McAdoo proposes to create a central bureau bank in the Treasury, 100; draft of bill presented to committee members, 128; scheme of Congressional opponents of federal reserve bill, 134 *et seq.*; Democratic caucus approves currency bill, 141; Vanderlip presents central-bank scheme, 167; secret sessions of Senate Democratic caucus, 207; modified House bill is passed by the Senate, 212; is sent to conference, 213; House accepts conference report, 216; Senate conferees accused of "capitulating to the House," 216; Senate accepts conference report, 220.
- Dallas Reserve Bank, expands credits in 1920, 288.
- Deflation, is opposed by Federal Reserve Board in 1920, 277 *et seq.*
- Delano, F. A., member of Federal Reserve Board committee on proposed elimination of four regional banks, 257; sends report to Glass, 259.

- Depression of 1921, causes contraction of credit and currency, 283.
- Doughton, Robert L., declines service on House Banking and Currency Committee, 98.
- Eagle, Joe H., member of House Banking and Currency Committee, 97.
- Economic Club of New York City, debate on Glass currency bill, 168.
- Farmers & Merchants Bank v. Federal Reserve Bank of Richmond, determines status of par clearance, 305.
- Federal Reserve Act, its constitutionality upheld, 255.
- Federal Reserve Board, membership not a political reward, 250; considers elimination of four regional banks, 257; advises against deflation in 1920, 277 *et seq.*; publishes notes of May, 1920, conference, 285; Division of Foreign Exchange provides information for war-time exchange operations, 295; gold export committee controls specie movement, 296.
- Federal reserve system, question of its authorship relatively unimportant, 2; the most effective scheme of national reserve banking ever devised, 2; its importance in the World War, 2, 291 *et seq.*; is credited to Wilson, 59; provides elastic currency, 62; establishes regional reserve banks, 62; enactment made possible by Wilson's election, 73; President-elect Wilson suggests establishment of a central federal reserve board, 82; provisions for open market transactions by regional banks and for establishment of par collections approved by President-elect Wilson, 90; Wilson decides against bank representation on Federal Reserve Board, 113; Wilson proposes Federal Advisory Council of bankers, 116; bond-conversion provision restored to bill, 117; bankers' reserve concession is dropped, 121; combines government issue and bank issue, 125; Democratic caucus approves currency bill, 141; redemption feature explained, 145; freely debated in the House, 150 *et seq.*; its passage, 155; Root attacks "fiat money" and "inflationary facilities" of currency bill, 198; bill is condemned by many bankers and business men, 237; is founded upon banking experience and study of readjustment methods, 239; is based on organization and practices of clearing houses, 240; is denounced by Senator Aldrich, 242 *et seq.*; Republican origin and advocacy of its principles questioned, 252; not impaired by administrative mistakes, 255; proposal to eliminate four regional banks is dropped, 269; improvident inflation of regional bank credits in 1920, 289; integrates the Government's transactions with country's credit system, 292; renders unnecessary large shipments of specie, 292, 298; maintains stabilization of foreign countries and transfers gold to their credit, 295; prevents inflation in 1920, 297; clears checks at par, 299; prevents inflation by withholding foreign gold from circulation, 306; improves credit analysis and commercial paper, 308; assists farmers, 309; helps in post-war restoration of foreign currencies, 310; facilitates foreign business, 311; United States Chamber of Commerce's summary of its benefits to business, 313.
- Fess, Simeon D., offers federal reserve bill amendment defending gold standard, 153.
- "Fiatism," not an element of federal reserve notes, 201.
- "Float," its abolition aimed at by federal reserve system, 301.
- Forgan, James B., rejects proposal to create a central bureau bank in the Treasury, 102; apologizes to Glass for speech, 180.
- Fowler bank bill, its zone system is similar to that of Federal Reserve Act, 240.
- France, maintains stabilization by federal reserve aid, 295.
- Gage, Secretary, condemns Vreeland-Aldrich Act, 65.
- Gallinger, Senator Jacob H., endorses Root's attack on Glass currency bill, 198.
- Germany, receives assistance from Federal Reserve Board, 311.
- Glass, Carter, his letter to David Lawrence on House's contributions to federal reserve legislation, 6; criticizes Vreeland-Aldrich Act, 64; discusses federal reserve legislation with President-elect Wilson, 81, 90; letter to President-elect Wilson reporting progress of subcommittee, 87; appeals to A. Barton Hepburn for review of proposal to create a central bureau bank in the Treasury, 102; commends E. D. Hulbert for statement of economic and political aspects of proposal to create a central bureau bank in the Treasury, 109; favours minority representation of banks on Federal Reserve Board, 112, 113; is exasperated at Wexler's refusal to support federal reserve bill, 120; argues against government issue, 124; reads Bryan's letter in support of federal reserve bill, 138; flays opposing scheme, 140; explains redemption

- feature of federal reserve bill, 145; his appreciation of Bryan's aid, 161; debates on currency bill, 168; letter accepting James B. Forgan's apology, 181; questions Federal Reserve Board's power to reduce number of regional banks, 260-269.
- Gold settlement fund, renders unnecessary large shipments of specie and accumulation of funds, 293, 298.
- Gold standard, is defended by Fess amendment to federal reserve bill, 153.
- Great Britain, maintains stabilization by federal reserve aid, 295; borrows silver for Indian trade, 296; return to gold standard rendered possible by federal reserve credits, 310.
- Gregory, Thomas W., advises Federal Reserve Board against proposed elimination of four regional banks, 269.
- Harding, William P. G., member of Federal Reserve Board committee on proposed elimination of four regional banks, 257; advises against drastic deflation, 278.
- Hayes, Everis A., suggests savings department provision in federal reserve bill, 149; urges that currency bill be sent to conference, 213; House conferee, 213.
- Henry, Robert L., is opposed to federal reserve bill, 131, 133, 140; assails Wilson's advocacy of federal reserve bill, 137.
- Hepburn, A. Barton, objects to proposal to create a central bureau bank in the Treasury, 102; debates on Glass currency bill, 178.
- Hitchcock, Senator Gilbert M., questions Dr. Willis on development of Glass currency bill, 188; leads Senate fight against Glass currency bill, 207; his eleven amendments, 208.
- Hitchcock currency bill, is supported by Republican Senators, 197.
- Hollis, Henry F., Senate conferee on Currency bill, 214.
- House, Colonel E. M., his Diary does not claim his paternity of Federal Reserve Act, 19; favours central bank scheme, 30, 31, 46; his participation in preparation of Federal Reserve Act denied, 50 *et seq.*; hears explanation of Glass currency bill, 52; recommends to Wilson proposal to create a central bureau bank in the Treasury, 106; fails to secure Senator Reed's support of Glass currency bill, 196; see also *Intimate Papers of Colonel House*.
- Houston, David F., his proclamation on increase of commercial loans in 1920, 289.
- Hulbert, E. D., rejects proposal to create a central bureau bank in the Treasury, 102.
- Indianapolis Monetary Commission of 1898, resemblance of its bank scheme to Federal Reserve Act, 240.
- Inflation, is prevented by federal reserve system in 1920, 297; is prevented by withholding foreign gold from circulation, 306.
- Intimate Papers of Colonel House*, House's conversation with David Lawrence and William W. Price denied, 5 *et seq.*; theory of Philip Dru as inspiration of federal reserve legislation refuted, 16 *et seq.*; House's activity in currency legislation denied, 20 *et seq.*; House's conferences with bankers experienced in legislation questioned, 26 *et seq.*; omission of portion of letter favouring central bank scheme explained, 30 *et seq.*; inaccuracies of Diary statement of bank reform measure to be submitted to Glass, 43; agreement of House and Glass on banking reform denied, 45 *et seq.*; omits letter to Wilson attempting to wreck federal reserve bill, 107; Republican origin and advocacy of federal reserve principles questioned, 252-254.
- Italy, maintains stabilization by federal reserve aid, 295.
- Johnson, Joseph French, debates on Glass currency bill, 168; congratulates Glass on his debate with Vanderlip, 175.
- Kansas City Reserve Bank, expands credits in 1920, 288.
- Korbly, Charles A., member of House Banking and Currency Committee, 97; defends federal reserve bill, 140; House conferee on currency bill, 213.
- La Follette, Senator Robert M., proposes amendment forbidding Federal Reserve officer to hold other banking position, 203.
- Laughlin, J. Lawrence, congratulates Glass on passage of currency bill, 159.
- Lawrence, David, has no first-hand information on House's contributions to federal reserve legislation, 9.
- Liberty loans, demonstrate efficiency of federal reserve system, 291.
- Lodge, Senator Henry C., opposes currency bill as putting the government in the banking business, 221; praises Federal Reserve Act, 224.
- McAdoo, Secretary William G., refers all federal reserve inquiries to Glass, 95; advises revision of currency bill, 99; his proposal to create a central bureau bank in the Treasury, 100;

- his aid in federal reserve legislation; 110, 131; congratulates Glass on passage of currency bill, 156; congratulates Glass on federal reserve enactment, 234.
- McCleary, James T., congratulates Glass on his debate with Vanderlip, 175.
- Minneapolis Reserve Bank, expands credits in 1920, 289.
- Money Trust investigation, is headed by Congressman Pujo and Samuel Untermyer, 68.
- Muhleymeyer central reserve bank plan, its resemblance to Federal Reserve Act, 240.
- National Association of Credit Men, assist in federal reserve legislation, 237.
- Neely, George A., member of House Banking and Currency Committee, 97.
- Nelson, Knute, Senate conferee on currency bill, 214.
- New York *Sun*, account of Wilson's signing federal reserve bill, 227.
- New York *World*, criticizes central-bank Democratic members of Senate Banking and Currency Committee, 192.
- O'Gorman, James A., Senate conferee on currency bill, 214.
- Owen, Senator Robert L., first chairman of Senate Committee on Banking and Currency, 24; denies House's assistance in federal reserve legislation, 25; receives copy of the federal reserve bill, 96; favours proposal to create a central bureau bank in the Treasury, 101; is opposed to bank representation on Federal Reserve Board, 112; debates on currency bill, 168, 176; answers Root's attack on Glass currency bill, 201; Senate conferee on currency bill, 214.
- Paish, Sir George, is worsted in argument with Paul M. Warburg, 210.
- Par clearance system, is blocked by legislation in some states, 301, 302; four benefits to business man, 303; is mandatory on federal reserve banks, 304.
- Pascagonia National Bank v. Federal Reserve Bank of Atlanta, determines status of par clearance, 305.
- Patten, Thomas G., member of House Banking and Currency Committee, 97.
- Phelan, Michael F., member of House Banking and Currency Committee, 97; defends federal reserve bill, 140.
- Philip Dru*, Seymour's theory of its inspiration of federal reserve legislation refuted, 16 *et seq.*
- Poland, receives assistance from federal reserve system, 310.
- Pomerene, Atlee, Senate conferee on currency bill, 214.
- Price, William W., denies House's influence in federal reserve legislation, 10.
- Pujo, Arsène P., investigates Money Trust, 68.
- Ragsdale, J. Willard, member of House Banking and Currency Committee, 98.
- Reed, Senator James, is won to support of Glass currency bill, 196; answers Root's attack, 201; Senate conferee on currency bill, 214; defends currency bill as reported, 220.
- Reynolds, Arthur, debates on Glass currency bill, 178.
- Reynolds, George M., becomes a supporter of the regional bank scheme, 86; his letter on opponents of the Glass currency bill, 99; is opposed to proposal to create a central bureau bank in the Treasury, 103.
- Richmond Reserve Bank, expands credits in 1920, 287.
- Root, Senator Elihu, attacks "fiat money" and "inflationary facilities" of Glass currency bill, 198.
- St. Louis Reserve Bank, expands credits in 1920, 288.
- San Francisco Reserve Bank, expands credits in 1920, 288.
- Seldomridge, H. H., member of House Banking and Currency Committee, 97.
- Seymour, Professor Charles, his *Intimate Papers of Colonel House* reads like a romance, 1, 4, 13, 20, 27, 56; see also *Intimate Papers of Colonel House*.
- Shafroth, John F., Senate conferee on currency bill, 214.
- Silver issue, Bryan opposes its revival, 146.
- Speyer, James, congratulates Glass on his debate with Vanderlip, 174.
- Stockton, Philip, does not anticipate immediate Senate action on currency bill, 163.
- Stone, Claudius U., member of House Banking and Currency Committee, 97.
- Swanson, Senator Claude A., aids passage of federal reserve bill in the Senate, 55.
- Stephens, Hubert D., declines service on House Banking and Currency Committee, 98.
- The New Freedom*, description of the credit trust, 76.

- Thomas, Senator Charles S., accuses Senate conferees of "capitulating to the House," 219.
- Underwood, Oscar, his aid in federal reserve legislation, 131, 140; leads Democratic insurgents against federal reserve bill, 152; urges that currency bill be sent to conference, 213.
- United States Chamber of Commerce, summary of benefits of federal reserve system to business 313.
- Untermeyer, Samuel, counsel for Money Trust investigation, 68; his advocacy of currency scheme is forwarded to Glass, 104; favours immediate currency relief, 140.
- Vanderlip, Frank A., presents central bank scheme to Senate Banking and Currency Committee, 167; debates on Glass currency bill, 168.
- Vreeland-Aldrich Act, is criticized by Glass, 64; is condemned by Secretary Gage, 65; is twice amended, 66; its passage through the House, 150.
- Wade, Festus J., congratulates Glass on passage of currency bill, 158.
- Warburg, Paul M., his opposition to certain provisions of the federal reserve bill, 49, 54; suggests currency bill amendments to the Senate committee, 210; not the author of the Federal Reserve Act, 211; member of Federal Reserve Board committee on proposed elimination of four regional banks, 257.
- Watterson, Henry, reproves committee chairman for humiliating Congressmen hostile to federal reserve bill, 23.
- Weaver, Claude, member of House Banking and Currency Committee, 98.
- Weeks, John W., congratulates Glass on passage of currency bill, 157; presents Lodge's letter opposing currency bill, 221.
- Wexler, Sol, his letter refusing to support federal reserve bill, 118.
- Williams, John Sharpe, answers Root's attack on Glass currency bill, 201.
- Williams, John Skelton, praises Federal Reserve Board for facilitating gradual decline in commodity values, 287.
- Willis, H. Parker, denies House's participation in preparation of Federal Reserve Act, 50; expert adviser to Congressional subcommittee on currency reform, 69; suggests provision for open market transactions by regional banks, 90; advises secrecy on federal reserve bill, 94; describes Glass's position on the transfer of reserves, 122; his contribution to federal reserve legislation, 126; congratulates Glass on passage of currency bill, 158; a witness before Senate Banking and Currency Committee, 187 *et seq.*; denies that federal reserve bill is derived from any other bill, 238.
- Wilson, Emmett, member of House Banking and Currency Committee, 98.
- Wilson, Woodrow, his election makes possible federal reserve legislation, 73; his letter on importance of currency revision, 75; describes the credit trust, 76; pleads for scientific solution of the currency problem, 80; suggests establishment of a central federal reserve board, 82; recommends discovery of extent and nature of banking opposition to federal reserve plan, 84; his letter on second currency discussion with Glass, 89; approves provisions for open market transactions by regional banks and for establishment of par collections, 90; advises with experienced bankers, 91; sends to Glass proposed Democratic membership of House Banking and Currency Committee, 97; forwards to Glass Untermeyer's advocacy of currency scheme, 104; confers with Glass on proposal to create a central bureau bank in the Treasury, 108; decides against bank representation on Federal Reserve Board, 113; proposes Federal Advisory Council of bankers, 116; advises Glass not to resign, 132; his statement on currency caucus, 141; refuses to see Vanderlip, 166; his statement approving the Glass currency bill, 167; wins Senator Reed to Glass currency bill, 196; signs federal reserve bill, 226; speech on passage of the bill, 229; congratulates Owen and Glass on federal reserve enactment, 232; threatens to reorganize Federal Reserve Board for usurpation of legislative power, 270; avoids contact with Federal Reserve Board, 272.
- Wingo, Otis T., member of House Banking and Currency Committee, 97.
- World War, its outcome due to the Federal Reserve Act, 2.

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